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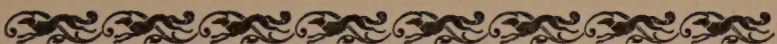
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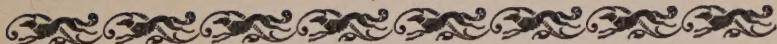
FOREIGN TRADE AND WORLD POLITICS

*A study of the International Foundations of
Prosperity with Particular Reference
to American Conditions*

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TO
R. M. MACIVER

PREFACE

In this work I have undertaken the study of the international foundations of prosperity, and have, therefore, given it the title of *Foreign Trade and World Politics*, because, as I shall endeavor to show, those foundations are both economic and political.

I am well aware of the fact that it is customary at the present time to treat such a subject as strictly economic. This ought to be a study of post-war economic conditions. It is, but it is more, for the economic questions raised are directly connected with great political problems. There can be no doubt that modern sciences have advanced rapidly through the intense specialization which is so characteristic of our age, but there is one great defect in such treatment—the philosophical unity of a complicated subject is likely to be lost sight of. That is particularly true of economic questions in our day. We have about given up the use of the older and truer term “political economy,” and have substituted “economics.” But is it not a wholly inadequate treatment to deal with such subjects as the production and distribution of wealth and leave out of consideration the state which defines, upholds, regulates, and taxes property? The plain truth is that economics and politics cannot be torn apart and treated as separate sciences. Of the mid-Victorian attempt to do so, Ruskin had this to say: “I simply am uninterested in them as I should be in a science of gymnastics which assumed that men had no skeletons. It might be shown on that supposition that it would be advantageous to roll students up into pellets, flatten them into cakes, or stretch them into cables; and that when these results were effected the re-insertion of the skeleton would be attended with various inconveniences to their constitutions.” To be sure there are advantages in concentrating our thought upon a particular aspect of a subject, but we must not forget that such treatment is partial. For example, in the first part of this book we are more concerned with

the economic basis of prosperity, but return to the political aspect of our problem in the latter part.

American economic development in the present century has been astonishingly rapid. Standardization and mass production have given us a capacity to produce upon a scale greater than our own needs, and have created a demand for foreign markets which is a new and significant thing for us, adding to agriculture many lines of manufacture which now seek an outlet for their surplus production in foreign markets. How is our agriculture going to hold its own in the foreign field, and how are our expanding manufacturing industries going to be able to export in an increasing volume? True answers must be given to this question, if we are to build solidly the foundations of national prosperity. We, therefore, begin our study with an exposition of the fundamental principles of international trade and finance. Without a firm grasp of those principles no headway can be made with such subjects as the tariff, the interallied debts and reparations. Furthermore, as a result of the war, the American trade balance has undergone a radical change—a change of the utmost significance for our farmers and other exporters. But this can be understood only by grasping firmly the relations of trade and finance. The changed financial relationship of the United States and Europe has brought our tariff problem again to the front, and it must be reconsidered in the light of the new conditions brought about by the war. In the first four chapters I deal primarily with our tariff and foreign trade policy. In Chapter V I give an exposition of the economics of imperialism, for the economic development of the United States is such as to lead to an imperialistic career, if we follow the course of vigorous and assertive peoples hitherto. Before taking such a step (there are those who see us headed in that direction in our dealings with Latin America) we should profit by the experience of the old world. Not only that, but imperialism as a trade policy plays a great part in world politics, and we Americans, because of the pre-eminent position which we have now attained in world affairs, must know something of the nature and purpose of that policy. Then in the following chapter I take up the troublesome problem of reparations and interallied debts.

Popular discussion of this subject has not gone very far with us, for the subject is a highly complicated one, and the effects of proposed financial operations upon trade have been given slight consideration. I propose to deal with the matter at length considering especially the effects of the collection of debts and reparations upon the course of trade. This is a question which will become more and more important in the next few years, because Germany, for reasons which I explain, is certain to fail to meet the Dawes schedule of payments, and when she does, the whole question of debts and reparations will again come up in a critical form. However the operation of the Dawes plan will give the world a breathing space, and we should use the time to formulate a sound national policy with regard to this pressing question.

Up to this point my discussion emphasizes the economic aspects of our problem. In Chapter VII I make the transition to emphasis on the political, through considering what is certain to be the effect of the growth of economic interdependence, upon the relations of modern states. Before the war, those who had eyes to see, witnessed the very rapid development of an international, economic community—a development, as I shall show, of the utmost political significance. The tragic misfortune of our day was the failure of statesmen to read these signs of the times. The war came and produced disastrous consequences for victor and vanquished alike, because, in spite of economic interdependence, the world was left in a state of international anarchy. Why international anarchy? Our answer demands a somewhat extended historical inquiry into the great moving forces of world politics, imperialism and nationalism, and how they worked together for war. There are those among us who think such a study is for Americans merely an academic exercise. That view, as I hope to show, is an entirely mistaken one, for we have outgrown the conditions which made us unconcerned with world politics, and for us ignorance has lost forever the blissful charm which it may have had. Our commercial growth has been such that we are deeply concerned now with what goes on in the world, for the prosperity of large sections of our people is dependent upon conditions outside of our own country. This brings us face to face with the

greatest political problem of our age, the problem of world organization. If it cannot be solved, then it is idle to suppose that we can build our prosperity upon an international basis. If we cannot put an end to the international anarchy, sooner or later, when another great war breaks out, it will put an end to any prosperity which we may have built up through sound economic policies of international trade. Economic science can tell us what is necessary to lay the international foundations of prosperity, but its answer can never be complete; we must turn to political science and learn what are the necessary legal and political conditions of economic well-being. This book, therefore, falls naturally into two parts. The first treats of the relations of economics to politics, and the latter of the relations of politics to economics. I have not made any formal division, however, for such a division tends to break that unity which I wish to emphasize, a unity whose philosophical soundness is understood when we see how the economic development of the modern world challenges the historic doctrine of sovereignty, the theory that each national state is independent and free in the determination of its policies and conduct towards other states. To what extent is this true? How far is such a theory workable at the present time? On the answers to these questions depend the economic well-being and the political progress of mankind.

All the great commercial nations must face the problems of world politics; there is no escape, least of all for us the most potentially powerful nation economically and politically in the world to-day. We cannot thrust these problems into the background, because they involve the prosperity and the well-being of large sections of our people. On these questions national debate is only beginning. We are entering an era in national politics when the tariff, interallied debts, sources of raw materials, our relationship to the League of Nations, in short, foreign affairs generally will occupy an increasingly important part in all serious political discussion. Whoever doubts this should try to carry to their logical conclusion the implications of the report of the President's Agricultural Commission. Or consider the remarkable rise in the price of crude rubber last summer, and the way the matter

was handled by our papers and news agencies, the animosities aroused and the threats made. The great question of the control of raw materials which has figured so prominently in European discussions of imperialism, thus became prominent over here at a time when many among us had made up their minds that we were not much concerned in the problems of world politics, and had also reached the conclusion that international political co-operation was neither necessary nor desirable. The intellectual foundation of this conclusion is the Eighteenth Century conception of independence and sovereignty in which we have been schooled, and to which we cling with all the strength of traditional bias. Our economic practice has outrun our political thought. We must bring our thinking up-to-date.

I am under a very special obligation to several friends. Professor R. M. MacIver, head of the department of Political Economy in the University of Toronto, has done me the favor of giving the entire manuscript a careful and critical reading. Dr. Raymond Cahall, Professor of History in Kenyon College, has favored me with a critical reading of the historical parts of this work. My colleagues, Dr. C. M. Fuess and Mr. F. W. H. Stott of the English Department of Phillips Academy, have read the entire manuscript and I am indebted to them for numerous corrections and suggestions of a literary nature. Frequent discussions of various aspects of this whole subject with my friend and colleague, Mr. Archibald Freeman, have clarified my own thought. My wife has given me the invaluable aid of encouragement and has rendered much service in the preparation of the manuscript.

H. F. F.

Andover, Mass.

March 1, 1926

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FOREIGN TRADE AND
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When one day history is written, what will be regarded as the chief result of the World War? Will it be the destruction of the three imperial dynasties which were the stronghold of conservatism and autocracy in Europe? Or will it be the rise of France to predominance on the Continent, the upsetting of the balance of European power on which Great Britain based her home security and her world empire for centuries? All these events, far-reaching as they are, are overshadowed by the one fact: the shifting of the world's centre from Europe, which had held it since the days of Marathon, to America which, during the World War, outgrew her competitors and became the leading world power in economics as well as in politics.—G. VON SCHULZE-GAEVERNITZ

CHAPTER I

The Fundamental Principles of International Trade and Finance

INTERNATIONAL trade means the exchange of goods and services by people in one country for the goods and services of people in another country. *Trade means simply exchange*; this must be kept constantly in mind. Buying and selling, with which we are all familiar, is the usual process by which the exchanges are effected. What we all see is the selling of goods for money, or the purchase of goods with money; a matter so simple, so obvious, that no further thought need be given to it. That unfortunately is the attitude of entirely too many people; not the ignorant only, but the educated and the intelligent as well. The real difficulty lies in our conception of money; we regard it as the object to be gained, whereas it functions in trade as the mechanism of exchange. Every thoroughgoing discussion of economic questions, therefore, looks behind the money medium and endeavors to grasp the realities of the process. Take the simple case of wages; the economist makes a sharp distinction between the nominal and the real wage; the former is the amount of money paid, while the latter is the amount of goods and services which the money will command; and it is this latter conception which is required if you are going to compare wages in different countries where differing money scales and price levels prevail.

The scientific economist who looks farther and deeper than the business man is apt to appear to him abstract, theoretical, out of touch with life; while the economist is likely to regard the business man as short-sighted, superficial, deficient in analytical power. The practical man untrained to scientific methods does not like theories; but he does not hesitate to give explanations, and in so doing becomes theoretical, generalizing as he goes along on the few instances of his personal experience. A scientific explana-

tion or theory requires wide observation of the facts by men trained to make logical inductions. If such a theory does not explain the facts, then the theory is unsound and has to be given up. Nothing is more fallacious than the popular notion that an idea "is all right in theory but won't work in practice." To condemn a principle offhand as "theoretical" is to display complete ignorance of modern scientific method. It is no criticism of a perfectly sound chain of reasoning to say that it is theoretical; but when tariffs are under discussion and someone reasons accurately on the basis of accepted economic principles, he is likely to be dismissed as a "theorist" by the practical business man engaged in a protected industry. To be sure, there is a fundamental difference in the attitudes of the economist and the practical man. The scientific economist judges the question from the national advantage or disadvantage. The practical man looks at the matter from the standpoint of his own industry or locality. The economist has no quarrel with the business man who asserts that his industry or locality benefits from protection. What he objects to is the hasty conclusion that the country therefore benefits also.

THE ADVANTAGES OF INTERNATIONAL TRADE

By international trade a nation is enabled to procure commodities which it is absolutely unable to produce itself. With us spices and tropical products are good examples of this. It is also able to get cheaply those commodities which it can produce, but only at a great cost. This suggests Adam Smith's well known comment, "By means of glasses, hot beds, and hot walls very good grapes can be raised in Scotland, and very good wine too can be made from them at about thirty times the expense for which at least equally good wine can be bought from foreign countries." When we come right down to it, there is very little that cannot be produced in a country, if the requisite effort is put forth; Germany during the war showed what could be done in the case of necessity. For the most part it is the advantage of cheaper production which leads one country to trade with another. Many things which if manufactured or grown at home would find

no market because of high cost, are readily sold when procured on advantageous terms by means of international exchange. But perhaps the most remarkable case of the advantages of international trade is that which is based upon the principle of "comparative costs." Here is a paradoxical situation—a country with superior powers of production may find it profitable to import a commodity which it has an advantage in producing.

"If a country, though under no disadvantage in a commodity, nay, though possessed of an advantage in producing it, has here a *less* advantage than in other commodities, the first will be imported. For example, labor in the United States is no less productive than labor in Italy or Russia; it is probably more so; none the less, hemp is imported from those countries. Labor in this country is no less productive in producing flax fibre than labor in Belgium, or in making linens than labor in Germany or Ireland, but flax and linen are still imported, and this in the face of a considerable duty. (Hemp as it happens, is duty free.) Coarse wool such as is used in making carpets, could be grown here with as little labor as in China, Asia Minor, Russia and sundry other backward countries, from which, none the less, it is steadily imported. The everyday explanation of all these phenomena is that labor is too dear in the United States. The explanation is true enough, as far as it goes,—but why is the labor dear? Our high rate of wages does not lead to the importation of all goods, or prevent the exportation of those in which the productivity of labor is large. High general wages are the results of high general productivity. Once established and current, they constitute a difficulty for other possible industries in which productivity is not high. The real explanation of the continued importation of things in which labor is at no disadvantage is that they cannot meet the pace set by those in which the labor of the country is *more* productively applied."¹

It is to the advantage of a nation to apply its labor and capital in the most effective way; just as it is to the advantage of an individual to devote himself to that one occupation in which he is most proficient. It is the merest commonplace that there is economy in the division of labor. If Jones can make two pairs of

¹ Taussig, *Principles of Economics*, Vol. I. p. 488. Second edition revised.

shoes while Smith is making one, and he can also make four hats while the latter is making three, it is obvious that it will be to the advantage of both for Smith to concentrate upon making hats and Jones on making shoes; and each receive what he needs from the other by exchange. So too an able business man leaves to clerks many matters requiring the exercise of good judgment which he could handle better himself, in order that he may concentrate his own attention upon the more difficult work of management. The prominent lawyer does not do his own typewriting, though he may be an excellent typist. The skilful bricklayer does not carry his own bricks, even when he is stronger than the hod carrier. Of course, the division of labor may depend upon absolute advantage as well as comparative; a bookkeeper may be more competent than his employer, in his particular work; the lawyer may be a poor typist; the skilled bricklayer may lack the physical strength of the hod carrier; but the point to be remembered is this; comparative as well as absolute advantage determines the division of labor. In similar fashion a nation orders its economic life best when it applies its energies to the production of those things in which it enjoys the greatest advantage whether comparative or absolute.

Thus unhampered international trade tends to concentrate the productive force of each nation upon those natural agents and materials which offer the highest returns, so that each productive unit becomes the more efficient. It is also highly desirable from the standpoint of world economy that certain branches of production be concentrated in those places which are favored by natural conditions. This again is one of the advantages of the division of labor, and free international exchange tends to bring about what has been aptly termed "the territorial division of labor."²

THE EQUATION OF INDEBTEDNESS

The most fundamental of all the ideas connected with the subject of international trade is the simplest and most natural that

² On the general features of international trade and its advantages see Bastable, *Theory of International Trade*, Chapter I, and Taussig, *Principles of Economics*, Chapters 34 and 35.

should come into the mind of any thinking person; the idea that international trade is *trade*, that is, *the exchange of goods and services of people in one country for goods and services of people in another country*. No headway at all can be made in our thinking upon the subject until this elementary principle is grasped and held firmly. And, once this fundamental idea is fixed definitely in our minds, many of the extremely numerous fallacies about the subject lose their plausibility. Not only that but two important corollaries are readily grasped and they serve the excellent purpose of keeping our thinking straight. They are:

1. The imports of a country pay for its exports; or more accurately, over a definite period of time, the sums owed by a country equal those due it.

2. A country cannot sell if it will not buy.

The first means that in the long run every nation develops an equation of indebtedness. Strictly speaking it is not the value of imports and exports that balance, if by those terms we mean commodities only. Other items, the so-called "invisibles," such as loans, interest upon loans, ocean freight charges, etc., play an important part in determining the equation of indebtedness.³

What makes accurate thinking upon international trade so difficult is the part played by money. To the business man, international trade like any other trade means sales and money dealings. The conception of money as a mechanism, whose purpose is to facilitate exchange, is an idea not easily grasped by the business man engaged in what seems to him the simple process of buying and selling. It is unfortunate that the time of the modern business man is so occupied with pressing practical problems that he is unable to study the larger problems of business. If he would only find time to read the trade statistics of the various governments, he would get excellent food for thought. Would not the fact that in 1922 Great Britain exported commodities to the extent of £824,274,297 and imported gold to the comparatively small amount of £34,543,591 arouse his curiosity? If trade means sales for money, how does it happen that Great Brit-

³ *vide infra* pp. 14-18.

ain was paid for only about 4 per cent of her exports? Again, if trade is so simple a matter, how does it happen that for the fiscal year ending June 30, 1923, we received gold to the value of \$284,089,550 while our exports totaled \$3,597,077,933? The average business man realizes instinctively that British and American exporters were paid somehow. At this point in his questioning, some obliging friend is likely to remind him that "imports pay for exports." This clears up the problem. Great Britain imported goods to the value of £1,003,918,124 in 1922; while in the above fiscal year we imported goods to the extent of \$3,781,259,144. Our trade just about balanced; but how do we account for the fact that Great Britain received about a billion dollars worth of goods more than she exported? Is the equation of indebtedness true in her case? It is. The outside world was paying her for "invisible" items, interest, freight charges, brokerage, etc., which are not tabulated in the balance sheets of international trade.

The exchange nature of international trade will be readily grasped if we imagine a world in which there are only two countries—Erewhon and Utopia. The business men and the statesmen of Erewhon are ardent protectionists; they erect a tariff wall so high that the goods of Utopia are completely excluded. They believe it advantageous, however, to stimulate exports. They amend their banking laws to permit branches in foreign countries. Their consular service and their department of commerce seek trade opportunities in Utopia. The result is that importers in Utopia buy the goods of merchants and manufacturers in Erewhon; and for a while they will pay in gold, the only thing accepted in Erewhon. But, as gold flows into the latter country prices begin to rise; ⁴ since the value of gold, like all values is subject to the conditions of supply and demand; the more there is of it, the less its value, which means that an ounce of gold will purchase fewer commodities. Conversely, in Utopia as gold leaves the country, prices will fall. After a while the Utopians find that

⁴ We are making the legitimate assumption that the central banking system of Erewhon is not going to lock the gold up in its vaults, but that it is to put it either directly into circulation, or use it as the basis of normal currency or credit expansion.

they cannot buy goods any longer in Erewhon; their prices are too high, and as the duties of the latter state are prohibitive, trade ceases altogether. The statesmen of Erewhon make the elementary discovery that if they will not buy, they cannot sell.

The main difficulty in grasping the real meaning and significance of international trade lies in the fact that every business man knows perfectly well that under modern conditions merchants in one country do not actually barter with merchants in another country. To say that trade means exchange is to suggest barter; but the individuals directly involved in the transaction do not deal in that primitive way. An American importer of chinaware from England will pay in one of two ways according to the terms of sale. The Englishman may be given the right to "draw" on him. Payment will then be made when the draft is presented. On the other hand he may be required to "remit"; in which case he goes to his banker and buys a draft which he mails to the English exporter. At no point in the transaction is there any suggestion of barter. But, *what from the point of view of the individuals is merely sales and money dealings, is from the national viewpoint barter.* Brown in America may sell wheat to Gray in England; and White in London may sell china to Black in New York. It is altogether probable that the grain merchants in question know nothing whatever of the china merchants; yet, Brown's wheat may pay for White's china. Thus while barter may never enter the minds of these four gentlemen, nevertheless, considered as a trade transaction between the United States and England, the process is barter. To understand this requires a knowledge of the foreign exchanges, the means by which international payments are made. It is simply not possible for anyone to discuss international trade or finance intelligently unless he is familiar with the process by which foreign drafts come into existence.

To talk of international trade and finance without understanding the complexities of the foreign exchanges very often leads to a display of ignorance which reveals thoroughly misleading notions about important practical matters. For example, there was no sense in writers and speakers gloating over our "favorable" trade balance, as it rapidly increased after we entered the war. That

was the inevitable result of the great loans which we made to the Allied nations. Common-sense should tell us that there is no particular cause for rejoicing in making a loan. Business men and popular writers were simply misled by the use of the technical phrase "favorable trade balance." Furthermore very few people thought of the time when the loans would be paid back, and the converse result of an "unfavorable trade balance" would be inevitable. I well remember the shock which I gave to some optimistic friends, in a club in a Middle-Western manufacturing city, when I suggested that they would whistle a different tune when the Allied governments began to pay back the debts to us; so that our imports would become increasingly greater than our exports. Most of them looked perturbed till my friend H, who boasts that he is a "hard-headed, practical man of business," declared that Congress could be depended upon to ward off such a menace by a good, stiff, protective tariff! As he is a gentleman farmer as well as a manufacturer, I replied good naturedly: "You want to jump out of the frying pan into the fire. As a manufacturer you want easy sailing under protection; as a farmer you are willing to accept depression through loss of foreign trade." Seeing no connection between the two, he exploded with a measure of good-humored desperation: "What the h—— are you talking about!!?" Here was a business man who conversed freely on international trade without understanding its exchange nature. He rejoiced in the loans which our government was making; but had no understanding of the form such loans must take. It never occurred to him that those loans took the form of agricultural products and munitions of war of all sorts. He never asked himself what we should be willing to take in payment. He thought it would be criminal folly for our Congress to let the foreigners ship in goods in excess of our exports, which would be necessary if the Allied nations were to pay us back principal and interest. Add to this the fact that he is not agreeable to a cancellation of the debts; and the picture of his mental confusion is complete. When recently pressed with the question, "How are they going to pay us back?"—he answered triumphantly: "Make them pay us in money, the way the British are doing; the way we all pay our debts." As a

practical business man his thinking naturally runs to drafts; but he does not know what lies back of them. His is not an isolated case. On the contrary he represents the widely prevalent attitude. Did not the same Congress which passed the bill providing for a commission to arrange for the funding and the collection of the debts owed us by the Allies also enact a high protective tariff designed to keep out European goods and thus make difficult the collection of those same debts? How many farmers knew, or how many of their representatives in Congress knew, that this procedure would throw the burden of post-war re-adjustment of our trade balance upon our farmers and other exporters? Such understanding lies in a knowledge of the foreign exchanges.

THE FOREIGN EXCHANGES ⁵

International trade like local trade is conducted through sales for money by individuals. The fact that the currencies of the countries differ is the only complication; and the method whereby a merchant in one country pays a merchant in another is the mechanism of the foreign exchanges.

A bill of exchange or draft is simply an order by one person addressed to another directing payment to a third person. Every one knows what a check is; it is an inland bill of exchange drawn by a depositor directing his banker to pay a stated sum to a third person. Inland bills of exchange, commonly called drafts, are frequently used, so that the "bill" is not peculiar to foreign trade; the only peculiarity in fact being the difference in the currencies

⁵ On the foreign exchanges, see Goschen, *Theory of the Foreign Exchanges*, which has long been a standard English work on the subject, and Clare, *The A B C of the Foreign Exchanges*, who gives more of the practical details than Goschen. Hartley Withers' *Money-Changing* is a very readable account, and the same writer's *Meaning of Money* has a chapter on the foreign exchanges, excellent for brevity. Pierson, *Political Economy*, Vol. I. pp. 516-567 (Eng. tran.), contains good examples from the continental European viewpoint. For post-war conditions see *Modern Foreign Exchange*, by H. C. Walter, *Foreign Exchange*, by T. E. Gregory, and *International Exchange*, by Thomas York. Part II, of this last work, which deals with "Practical Exchange Operations," gives numerous examples from our American experience.

of the two countries. British business men use time bills in exactly the same way that American business men use promissory notes. "The "acceptance" is a form of bill of exchange which is coming gradually into use over here; in England it has long been the standard form of commercial paper. With us a bill of exchange is used almost exclusively in the sense of a foreign bill. We speak of foreign bills, but rarely of foreign checks. In London, however, it is a common experience to hear a "city man" speak of "Paris Cheques."

How do the exchanges work in normal times? Let us examine the simplest conceivable case. We shall look into the business affairs of the four gentlemen we referred to a moment ago. Suppose Brown in New York has sold £1000 worth of wheat to Gray in London, and it is part of the contract that the former *draw* on the latter for this amount. Suppose further that Black in New York has bought £1000 worth of china from White in London, and has agreed to *remit* for this amount. How is he going to do it? Obviously the easiest way is to buy Brown's draft on Gray for £1000, and if the exchanges are at par, he will pay \$4,866.67. Having purchased Brown's bill, Black will mail it to White, and everybody will be satisfied when White collects his £1000 from Gray. Thus Brown's wheat is made to pay for White's china. This simplified example illustrates the principle; an exporter has bills to sell and an importer has bills to buy. In the above case, we made Brown draw and sell his bill in New York. But, obviously, these transactions might be done in London.

The above is an artificially simple case. At the present time no exporter would be likely to sell his bill directly to an importer. Two difficulties would complicate matters too much. In the first place the parties concerned are not likely to know each other, and in the second place the amounts involved are not likely to be the same. Therefore, dealers in foreign exchange, banks and brokers, make a specialty of this business. An American bank or exchange house will have its foreign correspondent with whom it has an account in the various foreign countries. If Black wants a £1000

draft to pay White in London he will simply go to the foreign exchange department of his bank and buy a sterling bill for £1000 and, if the exchanges are at par, will pay \$4,866.67 for it. Brown will take his bill to his bank and get a deposit for \$4,866.67. Black's bank will issue a draft payable by its correspondent in London, while Brown's bank will send his bill to its London Correspondent who will collect from Gray, very likely through Gray's bank. It is clear that the second practical difficulty mentioned above is easily overcome when a New York bank has a London correspondent. The New York bank having an account in the London bank makes deposits there, the bills it sends for collection; and draws against its account, the drafts it issues. If the New York bank buys a draft for £1000, it could sell ten drafts for £100 or in any denominations desired. What its foreign exchange department is doing all the time is buying and selling bills, and the same thing is going on in London in the exchange department of its correspondent. Periodically settlements are made, and balances may be paid or carried over. However, the shipment of metal is slight compared with the great volume of international trade at the present day.

The price of a bill of exchange, like the price of anything else, is governed by the conditions of demand and supply. When there is an abundance of bills on London in New York, more than are demanded, the price of pounds will go down quoted in dollars and cents. When there is a dearth of bills on London and the demand exceeds the supply the price will go up. In normal times the par of exchange is \$4.867 per pound (that is, one British sovereign contains gold to the value of \$4.867), and the price could rise to \$4.89 or fall to \$4.845, technically known as the "upper and lower gold points." These gold points are determined by the par of exchange plus or minus the cost of shipping gold. In normal times the exchanges tend to return to par, that is to "correct themselves," for as gold flows out of a country prices will drop, and as gold flows in prices will rise; imports are curtailed while exports increase, thereby decreasing the demand for bills and increasing their supply at the same time. In this way

the trade balance shifts so as to maintain the equation of indebtedness.⁶

Since the war the exchanges have not been normal; the gold parities have not been maintained. All over the world governmental credit has been subject to excessive strains, and inconvertible paper currencies have become greatly depreciated. When a country has a depreciated, inconvertible paper currency, two sets of influences will act upon the foreign exchanges—the extent of the depreciation of the paper and the usual shifts due to the trade balance. Suppose that the price of gold in Italian paper money is such that it takes four paper lire to buy one gold lira; then the real par with American currency is 4.82¢ per paper lira, or about twenty lire to the dollar. The influence of the trade balance will be such as to make the quotation go above or below this rate. Thus when Italian exports are relatively large, the exchange rate may be quoted at 4.86¢; and when Italian exports are relatively small, the exchange may drop to 4.78¢.

A country with a depreciated paper currency may enjoy a selling advantage abroad but only for a short time. So long as the currency is “externally undervalued” it will have an advantage. But, sooner or later, trade movements will bring the internal and external values into line. At home, if the external value is the true gold value, prices will rise until monetary costs and real costs bear their normal relationship, and there will no longer be any selling advantage abroad. If the internal value is the true value then the expansion of exports and the curtailment of imports will bring the exchange rate back to the parity between paper and gold. A currency cannot long remain “externally undervalued,” and a depreciated currency with prices adjusted to offset the depreciation gives a country no selling advantage. That is why fears and hopes in this connection have proved unfounded.

We have considered the working of the foreign exchanges because we wanted to make perfectly clear the exchange nature of all profitable trade.⁷ A study of the exchanges shows how modern

⁶ See Appendix A. for a discussion of “purchasing power parity” at the present time.

⁷ The foreign exchanges are a highly technical subject. Those who are

bank money functions as a mechanism in the promotion of trade. To talk of "drafts" apart from trade is to talk nonsense. To suppose that you can export and not import is folly. Unless there are some people in the United States who are willing to import, those who want to export cannot do so. A farmer friend of the writer's in the Middle West who was bemoaning the falling off of exports of wheat saw no connection between this and our protective tariff. On the contrary he heartily approved of the tariff. Our people ought to spend their money right here in our own country and keep our own people employed. His explanation of the decline in Europe's purchases was simple. "Those Europeans fought too long and spent all their money; as they hain't got the money, they can't buy our wheat—darn the luck!" Close questioning revealed his conception of money to be that of drafts which he could deposit; but he had not the slightest notion of the relation of trade to drafts. No wonder he approved of high protection at a time when it was dangerous to his interests as a wheat farmer!

It must be abundantly clear by this time that international trade is the exchange of goods and services by people in one country for goods and services of people in another country, and that the two propositions; (1) A country's imports pay for its exports; (2) it cannot sell if it will not buy, are fundamentally true. What we have established by a study of the exchanges is *the equation of indebtedness*. This is the position toward which international trade tends when worked, as it actually is, by credit instruments. This coincides exactly with our conclusions based upon economic theory. A position so well established is incontestible; and yet international trade is frequently discussed without any regard to the equation of indebtedness. Newspaper and magazine writers, politicians and business men, constantly express the view that a large excess of exports is particularly desirable. Mercantilism was long ago destroyed as a theory of political econ-

especially interested and those who do not yet understand the exchange nature of international trade, of how imports pay for exports, and vice versa, are referred to Appendix A. where the subject is worked out in greater detail.

omy and has no standing to-day with economists; but to the average man it still seems sound sense. That the sun went around the earth in a day was also a matter of "common-sense." So too an excess of exports will bring "money" into the country; therefore, we should aim at developing our export trade, while at the same time we restrict our imports. The ordinary business man does not understand the inconsistency of such a policy. What baffles the business man is money which usually is the end all and be all of his economic thinking. He concentrates his attention on the money features of business transactions without really understanding what money is and how it functions. Instead of looking upon money as the mechanism of exchange, the average man looks upon money as the end to be sought. Jones of Minneapolis does not sell flour to Smith of Sheffield for cutlery; no, he sells his flour for money, for dollars and cents, and Smith remits by a New York draft which Jones happily deposits in his bank. As he looks upon the cheerful piece of paper, he is probably all oblivious to the fact that in the last analysis it may represent the value of a shipment of cutlery from one of Smith's neighbors to a customer in these United States. Money is an obscuring influence which hides the truth from those not trained to economic inquiry. It is not to be wondered at then that international trade is a subject beset with fallacies, tenaciously held, even regarded as self-evident truths. For example, encourage exports, but restrict imports by high tariffs; by so doing we give employment to our own people, bring money into the country, and promote general prosperity. Those who have grasped the principles brought out in the preceding discussion will not be misled by such arguments.

THE TRADE BALANCE—FACTORS IN THE EQUATION OF INDEBTEDNESS *

If imports always balance exports, how do you explain the po-

* On the trade balance, see Taussig, *Principles*, Chapter 33, Bastable, *Theory of International Trade*, Chapter IV, and Gide, *Political Economy* (Authorized translation from the third edition), Book II, Chapter VII. A good knowledge of our pre-war foreign trade position can be gained

sition of the United States in the years before the War, inquires the reader of trade statistics? Our papers told us with evident satisfaction of our splendid "favorable" trade balance; of how, for nearly forty years, we had maintained an excess of exports over imports. How is such a condition to be explained? Speaking with strict accuracy, the stable condition of trade is not one in which imports and exports are equal in value, but one in which the sum of the payments to be made by a country is equal to the sum of the payments to be received by that country. This is the more correct way of stating the truth, tersely expressed in the statement, "imports pay for exports." The various parts of the debtor and creditor account of a country may be arranged in the following order:

1. Imports and exports of commodities. A country is obviously a debtor for its imports and a creditor for its exports.

2. Loans. The contracting of a loan by citizens of one country with citizens of a foreign country, makes the latter country the debtor of the first country, for the time being, till the loan is carried out. Loans have had an important effect upon the balance of international payments. Up till 1873 the United States borrowed heavily in Europe, particularly in England; that is European investors, particularly Englishmen, put a great deal of money into American enterprises, our securities finding a ready market abroad. Suppose that Americans have sold bonds in England for which they get bills on London. If up to this time trade has balanced, more drafts in London will come into the market than there is a demand for, and gold will flow to the United States; but it will not continue to do so indefinitely, for it will produce a fall in prices in England and a concomitant rise in prices in the United States.⁹ Exports from England will be stimulated and imports

from Sir George Paish's memorandum on *The Trade Balance of the United States*, published as part of Senate Document 579, 61st Congress, 2nd session, 1910, pp. 151-213. The busy reader will find his exposition ably summarized by Fetter, *Source Book in Economics*, pp. 337-346.

⁹ This is the normal result of gold movements. The situation in the United States from 1922 to 1924 was peculiar. In spite of importations of gold amounting to more than six hundred millions of dollars, the price level in the United States remained admirably stable, due to the policy of

will be curtailed. Experience shows that a continuing balance due to loans, like a continuing balance due to the purchase of commodities, is not liquidated in gold; it is settled by an increase in the importation of goods by the borrowing country. During the Nineteenth Century England and France were the great lending countries, and in the early stages of lending they showed an excess of exports over imports; the lending produced no constant discount on pounds or francs, on the contrary the exchanges were frequently favorable to both countries, and gold flowed in as frequently as it flowed out. *Loans are thus effected by the exportation of goods* even when they are not used by the borrowers immediately for the purchase of materials and products in the country making the loan.

3. Interest on loans. We remarked above that during the Nineteenth Century, in the early stages of foreign investment, England showed a considerable excess of exports over imports. At the close of the Century this condition was reversed. The principal factor in producing the change was the interest she drew from all parts of the world. By 1909 the investments of the British people in foreign lands had reached a total of nearly £2,700,000,000

our Federal Reserve System in locking up the gold and keeping it idle, so as not to disturb prices and trade. The effect was to raise the gold reserve of the Federal Reserve Banks to 80 % of their note-issue and deposits combined—an unprecedented figure. Such a policy is so expensive that no country in the world could have pursued it except the United States, and that as the result of the exceptional conditions produced by the war. The fact is that after the war we had too much gold and the other countries too little. After the post-war readjustments have been worked out it will again be found that an influx of gold will raise prices and an outflow will lower them. In the long run capital in the form of gold is too valuable to be allowed to remain idle; that is excessive reserves of gold will not be allowed to accumulate. The efforts of our Federal Reserve Banks to avoid inflation were highly laudable, but at the rate of importation of gold in 1924, it looked for a while that in spite of these efforts involuntary inflation would take place. That would have happened after gold reserves reached 100 % of liabilities. Fortunately, the likelihood of such a situation arising is now far removed. We have begun to part with our gold. During the fiscal year ending June 30, 1925, our net export balance of gold was nearly one hundred and fifteen millions of dollars.

and the annual interest upon this amount came to about £140,000-000.¹⁰

It is well known that after 1873, the position of the United States changed. In that year a previous excess of imports gave place to an excess of exports. The dominant cause of this change was that up to that time we had borrowed heavily abroad, while from that year on we ceased to do so; but the annual interest on the loans continued. This was the real reason for the change in our trade balance. Those who have grasped the underlying principles of international trade will understand how foolish the terms "favorable" and "unfavorable" are when applied to the trade balance in the way the Mercantilists used them, and the way those terms are used by writers and speakers to-day who think they are entitled to consideration. Do we regard the coupon cutter who draws a handsome income from dividends each year as in an unfavorable economic position? England's "unfavorable" trade balance has been due largely to the income which her citizens have drawn from investments in all parts of the world.

4. The repayment of loans. It must be clear already that this fourth item in the balance of international payments produces the same effect as the payment of interest while a loan is outstanding. It will produce an excess of exports over imports.

5. Ocean freight charges. A very important item in the trade balance of Great Britain is her position as carrier. She is a creditor for the services given by her ships and remittances for freights make an important element in her balance. In the years before the war this was an item producing for the United States an excess of merchandise exports, and for Great Britain an excess of merchandise imports, because, as we learned in considering loans, these balances are finally paid in goods. Shipping services, and others of this nature which are not recorded in government statistics, have been aptly called "invisible exports."¹¹

6. Earnings of citizens living abroad, which are transmitted to

¹⁰ See Journal of the Royal Statistical Society, September, 1909.

¹¹ The phrase was first used by Sir Robert Giffen in explaining Great Britain's "unfavorable" balance. See his *Essays in Finance* (2nd Series), pp. 171-189.

their native countries, act in the same way as the payment of interest upon loans. Thus European immigrants who send remittances to their relatives at home help to swell our "favorable" trade balance of merchandise exports over imports, for in the last analysis these payments too are made in goods and services, and with us before the war these payments were made almost wholly in goods. Here again we are faced with the difficulty which that unsatisfactory term "favorable" trade balance produces if not used with great care. Before the war, an economist in explaining our yearly excess of exports over imports pointed out that such an excess was required to balance our payments, and hence such items as interest on loans, ocean freight charges, and immigrants' remittances, in the end produced for us our "favorable" trade balance. But an accountant, in drawing up our financial balance sheet, would not hesitate to place the value of these items in the unfavorable column, since they are really debts paid by the credits arising from our excess of exports.

7. Salaries, commissions, etc., paid to individuals in a foreign country. The home country is a debtor for these amounts. Thus, paying agents and foreign managers of American firms, and consuls in the diplomatic service requires an increase in our exports. A great financial centre like London draws remittances from all parts of the world in payment of bankers' and brokers' commissions.

8. Expenditures of people travelling abroad. A country is a debtor for expenditures of its citizens while living or travelling abroad, and on the other hand it is a creditor for the expenditures of foreigners within its borders. Here again is an important element increasing our so-called "favorable" trade balance of merchandise exports over imports; for Americans are of all people the greatest travellers and spenders abroad.

From his study of our trade balance in 1908-09 Sir George Paish concluded that "America requires an excess of exports over imports of nearly \$600,000,000 per annum in order to settle her trade balance." Before the war our financial position demanded a "favorable" trade balance of this amount merely to establish the equation of indebtedness between ourselves and the outside world,

which is the condition to be satisfied in all continuous, solvent trade between nations. Sooner or later an equation of indebtedness must be established for every country; it is for every nation what Cairnes declared it to be for the United States, "simply the condition of her remaining a solvent nation."¹² The exact equivalence of imports and exports is not likely to exist. It is not possible, however, to tell anything about the economic position of a country from a comparison of the amounts of its exports and imports. If dealings between nations were restricted to merchandise transactions, then the exports of a country would exactly pay for the imports; as it is, they pay for many other items as well. The equation of indebtedness is an extremely important principle. "This principle may be safely used for the purpose of deducing conclusions with regard to trade movements. As, in general, the imports and exports are the most easily altered items of the account, a readjustment in the amount of indebtedness will take effect through them, and an unfavorable balance will be discharged by a reduction of imports, an increase of exports, or a combination of both processes."¹³ As a result of the war the United States has passed from a debtor to a creditor nation; with regard to us the European countries are now in an unfavorable financial position, and our trade balance must be radically readjusted to produce a real equation of indebtedness. What this involves we hope to make clear in succeeding chapters.

Our object in this chapter has been to set forth the fundamental principles of international trade and finance. All that we learned above is extremely elementary, but almost entirely overlooked by business men and statesmen. The Treaty of Versailles showed tragically how the simplest principles of international economics could be cast aside as of no moment. The war left the world in a terrible economic chaos. It should have been the first business of statesmen to set it on the road to order and recovery. Instead they made confusion worse confounded by writing into the Treaty economic clauses which they should have known were unworkable and a constant source of malignant irritation to no purpose. Fur-

¹² *Leading Principles*, First Edition, p. 445.

¹³ Bastable, *Theory of International Trade*, p. 77.

therefore, the clauses dealing with German reparation payments were of such a nature as to produce in the long run a condition directly contrary to what the Allied statesmen planned and desired. Had it been at all possible for Germany to make the payments stipulated, she would have emerged from the ordeal with the technique and organization of the most extensive world trade in her possession, a result diametrically opposed to the interests of the powers who planned her humiliation and punishment. Those who have grasped the meaning of money in international trade, as revealed in our study of the foreign exchanges, will understand how this would have to be the certain result of the enormous expansion in German exports necessitated by the payment of reparations on so vast a scale.

Those who understand the exchange¹⁴ nature of all profitable trade will be inclined to be sceptical of the advantages to be derived from the policy of protection. They will approach the subject with a feeling that tariffs, since they hamper exchange, work to the general disadvantage of the trading nations. With regard to the imperialistic policy, they will have difficulty understanding how an advanced nation can develop very profitable trade with a backward people whose wants are quite different from their own. They will expect to find the leading European nations having their most profitable trade with themselves, or with the American countries. In short, those who understand the real nature of good trade will be doubtful indeed as to the gains *to the nation as a whole* from either protective tariffs or imperialistic exploitation, however successful these policies may be in enriching sections of a country or individuals at the expense of the many.

On its economic side, the hope for future peace lies in a true understanding of the commercial structure of the modern world. The economic case for war lay in a lamentable misunderstanding of that structure. We turn now to an examination of the economic forces at work shaping the policies of modern states and their relations to one another.

¹⁴ For a discussion of triangular trade see Appendix A, pp. 294-5.

CHAPTER II

Protective Tariffs and National Prosperity

FROM our discussion of international trade, it appeared that all nations engaged in it benefited, and this being the case one would think that free and unrestricted exchange would be the rule. But, as is well known, the contrary is the dominant policy; restriction, not freedom of exchange, is the foreign trade policy of nearly all nations. Why should this condition prevail? Do not restrictions diminish the gains of the trade? They certainly do and from the viewpoint of world economics are to be severely condemned. But nations do not approach this question from the viewpoint of world economics, but from that of their own national advantage, or rather, what they think is their advantage. Not only that but the individuals within the nation look no further than their own special interests direct them. The business interests which shape the trade policies of nations are primarily concerned with their own particular advantage, and they will not consider the matter in the light of the national good, far less in the light of international benefit. It is not surprising then that restrictions in the shape of protective tariffs are so generally placed upon international trade, for it is contended that these restrictions benefit those engaged in the industry and in the end, the whole country. Of course, this line of argument overlooks the important fact that the benefit of the individuals is frequently made at the expense of the rest of the country. In such a case the individual and national interests so far from coinciding are often opposed, and high profits and wages may be paid to those engaged in a protected industry at the expense of other less favored citizens. Protection as a policy has come down to us from the Mercantilists of the Seventeenth and Eighteenth Centuries, and though their fallacies as to the trade balance were finally exploded by Adam Smith a century and a

half ago, and, thereafter, ruled out of informed discussion, still their argument as to the desirability of an excess of exports over imports persisted and was much used in tariff debates in the last century, and people are to be found to-day who think it is the part of wisdom to do everything possible to stimulate exports, and at the same time restrict imports, not knowing anything of the relation existing between the two.¹ Another great factor making for protection is war; the necessity to be self-supporting in war time. This led modern states like Germany to place restrictions on imports. Bismarck who was not unfavorable to free trade on economic grounds declared that national defence was more important than any other consideration, and this caused him to change the free trade convictions of his younger days. The Nineteenth Century witnessed a remarkable development of the spirit of nationalism and protection was fostered by the growth of this spirit; free trade savored of cosmopolitanism and was condemned by nationalistic critics. The classical economists were international in their outlook, and from the viewpoint of the Englishman who was in the forefront of industry, free trade seemed sound policy. But critics soon appeared in other lands whose views were not only nationalistic, but definitely anti-English. They contended that the freedom which the British writers argued for was in reality freedom to sell English goods in foreign markets, because English industry was so far advanced as to give the British manufacturer a decided advantage over the less developed industry of the native producer. Thus early in the Nineteenth Century² the infant industry argument gained prominence and exercised a decisive influence over thought and action.

¹ William McKinley speaking in Congress for his Bill of 1890 boasted that from 1876 to 1889 under protection, "the total excess of exports over imports was \$1,581,906,871 of the products of our own people more than we brought into the United States." Doubtless, Mr. McKinley thought that he was saying something to the point, and that this was an argument in favor of high protection. As explained in the previous chapter, the excess was due chiefly to the payment of interest to European investors in American enterprises.

² Friedrich List, while living in Pennsylvania, published in 1827 his "Outlines of American Political Economy."

THE PRIMA FACIE CASE FOR FREE TRADE

The economic argument for free trade is clear and simple. It is based upon the economies of an international division of labor; by each nation concentrating upon the production of those commodities in which it has the greatest comparative advantage the total of the world's production will be increased, and out of the enlarged stock there will be a greater share for all. By using its productive power to greatest advantage each nation gains directly, and it also gains by satisfying its other wants through free exchange with other nations engaged in furnishing products in which their advantage is equally clear. For example, by the concentration of manufacturing industries at those places which are favored by technical and economic conditions, a great saving of productive power would accrue to the world at large, and through free exchange this saving would be generally shared, to the advantage of all. Therefore, if the question is one of economics merely, the burden of proof rests with those who assert that there is gain from the contrary policy of protection. The best case they have ever put forth is that resting upon the infant industry argument.

THE INFANT INDUSTRY ARGUMENT FOR PROTECTION

The argument for the protection of our young industries was first formulated by Alexander Hamilton, who as Secretary of the Treasury at the very beginning of our Federal Government, in his reports advocated the encouragement of manufactures by the levying of moderate duties on imported articles. In Hamilton's day this was a decidedly agricultural country, and so it continued to be well into the Nineteenth Century. But the best known advocate of this argument was Friedrich List who settled in Pennsylvania in 1822, the time when that state was in the first beginnings of the transition from an agricultural to a manufacturing community. List saw clearly that Pennsylvania was handicapped compared with England, and returning to Germany in 1832, he observed the same situation. The United States was a young country, and Germany, though an old one was just beginning her transition

from semi-feudal to modern conditions. List foresaw that manufacturing by machinery on a large scale through the application of steam power would come in time, in both countries. The natural conditions were favorable, and so the transition could be facilitated and the new industrial development hastened by checks on the competition of the older nations, particularly England. But List placed important limitations on the policy of protection; the duties should be moderate, not to exceed 25%, and they should be temporary. They should be moderate so as to encourage only manufactures which are natural to the country, and, therefore, likely to succeed. There should be a time limit to their duration, so as to keep the national loss within reasonable bounds. List was wise and honest enough to concede that there would be an immediate loss, but contended that eventually there would be such gains in skill and efficiency that, under free competition within the country, prices would fall to the point where goods could be produced as cheaply at home as abroad, perhaps more cheaply. As soon as this point in the evolution of the industry is reached the duties should be removed, and List proposed *thirty years* for the limit of governmental favor. Another decidedly important limitation which he placed upon his argument was that it did not apply at all to the products of agriculture. He pointed out the essential difference between manufacturing and agriculture, that the former complies with what the economist now calls the law of increasing returns, while the latter takes place under decreasing returns. In the former case, with the enlargement of the industry, there is a rise in the returns per unit of cost, and this will continue so long as there is no dearth of the suitable agents of production. But in agriculture the reverse is the case; here there is a limit upon the most important productive agent, land; and if double the crop is to be taken off the same area, the cost will be more than twice as great, or if the poorer land is to be cultivated, the return will be less per unit of outlay. Stated tersely though technically: with any given state of the industrial arts in manufacturing, marginal costs and therewith prices generally decrease, while in agriculture marginal costs and prices increase. Protection to manufactures in the early stages of their development may cause

the action of increasing returns to assert itself more quickly, while protection to agriculture will inevitably produce increasing cost through the stimulation of home production and the consequent use of poorer land.

Such is the famous infant industry argument, so intimately connected with the development of protection in the United States and Germany. Its theoretical soundness has been admitted by nearly all economists; but whether the stimulation to our industrial development by means of protective duties in the end brought advantages which compensated for the initial loss, there is no way of telling. History shows that it is always easy to lay duties, but very hard to remove them. List had many followers when he advocated the imposition of protective tariffs; but they refused to take his advice and remove the duties at the end of a thirty years' trial. Had this been done, we should now know a great deal more about the effect of protection to young industries. As it is we have no method of determining whether on the whole, there is a balance of advantage over the initial loss.

THE SUCCESS OF PROTECTION IN THE UNITED STATES

Those who are familiar with the industrial development of the United States since the Civil War are inclined to consider the protective policy a success. Undoubtedly the growth of American manufacturing industries was stimulated by our tariff system. In the Great War we exerted an industrial effort which was truly remarkable, and that effort can in a large measure be ascribed to our policy of protection. Without it we should have been mainly an agricultural country exchanging our products for the manufactures of Europe. It is conceivable that our population might not have been more than eighty millions, so that our part in the Great War and in world politics might have been of much less importance. On the other hand, the standard of living of our people might have been higher. Our people as a whole would have been better nourished, and we should have escaped the evils of rapid industrialization with its concomitant concentration of population in great cities. It is, therefore, probable that American

life would be more wholesome than it is to-day. Even under a régime of free trade we should have developed into a great manufacturing country, just as, within our free trade Union, Illinois has developed into a great manufacturing state in spite of free competition with our eastern states and New England. Within the United States the economic resources and conditions for industrial development are present in abundance, and in time manufacturing on a great scale was sure to appear. But we are willing to admit that the protective policy stimulated our industrial development, and, on the whole, as a policy of nation building may be regarded as a success.³

Our high tariff system was in the first place an outcome of the high taxation of the Civil War period. When such taxation was seen to foster manufacturing the policy of protection was openly adopted by the Republican Party when as a tax measure the returns began to decline. The conditions in this great country after the Civil War were entirely favorable to the application of the protective policy. We had bountiful resources needing development, and we could use the infant industry argument with telling effect. Furthermore, we required capital to develop our resources, and protection is of distinct advantage⁴ to a country bent upon the accumulation of capital. In the first place, our protected industries, offering the prospect of higher rewards than free competition would permit, attracted capital from abroad. In the second place, protection promoted a more unequal distribution of wealth than could have occurred under free competition in a country mainly agricultural. Our ideal became that of a great manufacturing nation with flourishing cities, the centres of thriving industries. But such a development required a great deal of capital. High protection would not only attract it from abroad, but would also hasten its accumulation at home. In those industries which were well adapted to the country, protection by lessening competition would permit the making of greater profits than a régime of free

³ See the judicious remarks of Seligman, *Principles of Economics* (Seventh edition, revised), pp. 570-571.

⁴ This is denied by some economists, but we are willing to grant the protectionist's claim.

trade would allow, and by facilitating the concentration of wealth in fewer hands would make greater savings possible.⁵ That might work an immediate hardship to the people of this country as a whole, but in the end they would benefit from the growth of capital and the more extensive development of our resources which it would permit. Thus in the end the policy would prove "economical," and would work to the advantage of the whole country. The reasoning is akin to the infant industry argument, but the important point of inequality in the distribution of wealth which it required rendered it unfit for popular use in our democracy, and the politician had wisely to steer clear of it. But, obviously, any argument for protection as a measure aiding the accumulation of capital in this country is out of date, as much so as the original infant industry argument itself.

The success of the protective policy with us has been due to the quickening of the transition from a mainly agricultural to a great manufacturing country. The infant industry and the capital accumulation arguments were the only sound ones⁶ for the policy. But, for popular consumption, alongside these, other specious but plausible arguments have been used. Let us examine these briefly.

THE WAGES FALLACY

Many of our industries are veritable giants, the greatest business corporations in the world being found within our borders.

⁵ "The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half century before the war, could never have come about in a Society where wealth was divided equitably." Keynes, *Economic Consequences of the Peace*, p. 19.

⁶ By sound arguments I mean here economic ones. Of course the objects of a tariff system may be political rather than economic. Sir Josiah Stamp classifies the ulterior objects of customs duties under seven heads. (See his *Principles of Taxation*, p. 188.) I give below a summary of his classification:—

1. To protect and benefit particular industries and sections which have received protection.
2. To diversify industry, and prevent over-specialization.
3. To provide for defence in time of war.
4. To prevent dumping.

So we hear very little of the infant industry argument, it has been supplanted by the *vested interests argument*, although business men and politicians are not so foolish as to call it that. They state the argument in a more attractive form: protection, they argue, is needed to enable manufacturers here to pay high wages, or to keep wages high. In many of our industries at the present time this is true. But, why is it true? Ah, there's the rub! The answer to this question is of prime importance, if we would really understand the operation of tariffs.

The common argument with business men and politicians is that American manufacturers pay a higher standard of wages than is paid in foreign countries, and, therefore, our costs of production are higher; hence we need tariffs to raise the price of cheap foreign goods, or else the foreigner will rob the American producer of his own home market, the result being either unemployment for our workmen, or else the reduction of their scale of wages to the foreign standard. In short, tariffs are needed to give employment to American labor, and to keep our wages high. So stated this is a very plausible argument, and to the average man or woman, ignorant of economic analysis, it sounds axiomatic. Yet, no argument in favor of protection is more fallacious than that based upon the competition of cheap foreign labor.

The American scale of wages is higher than the European, but does it follow that American costs are always higher? Certainly not, for how then could we maintain any export trade at all? The wages of farm hands and workmen here are much higher than in

5. To provide for retaliation and bargaining purposes against the tariffs of other nations.
6. To further national unity or tighten imperial ties.
7. To give a start to industries that will reasonably soon be self-supporting.

Now it often happens that a customs duty advocated and levied for one purpose is later defended upon other grounds. For example, our duties on woolen goods were originally advocated under number 7; now they are defended by numbers 1 and 2. This reminds Sir Josiah Stamp that protective duties are often like the man who kissed the wrong lady in a dark room, and Sir Josiah adds, understandingly, that while the result is sometimes not what is planned, it is nevertheless agreeable.

many parts of Europe, and yet we sell right along an abundance of food products and manufactured articles in the European countries; not only that, but in common markets like those of South America, it is the competition of those European centres where wages are highest that we fear the most. For example, prior to the war, it was England and Germany, not the Balkan States, that had the bulk of the South American trade. Evidently high wages do not always mean high prices. The explanation is simple. The American worker is more efficient than the European in those industries in which we undersell the European in his own country. The English are more efficient than the Spanish in manufacturing, and get the South American trade even though the latter are favored by language and national characteristics. In our exporting industries, it is a matter of common knowledge that high wages and low prices co-exist. This leads us back to a further consideration of the principle of comparative costs which we must remember is always a decisive factor in international trade. In those industries in which we have a comparative advantage, we are able to undersell the foreigner in his own market. Take agriculture, an abundance of land permits us to use those soils which are best for grain growing; not only that, but the western farmer, with his tractor and his harvesting machinery is enabled to do his work with great effectiveness. He can pay high wages, but his education and initiative aided by natural advantages permit him to sell his products comparatively cheap. The same is true with manufactures; Henry Ford has always paid high wages, yet he has no trouble selling "flivvers" abroad. Nor is he afraid of foreign competition. Wages are high in the Ford factory because a scientific division of labor with especially designed machinery for each process enables the skilled workman to be extremely efficient. In short wages are high where the marginal productivity of labor is high.

What happens when industries in which a country has no comparative advantage are encouraged by protection? Here is one of the great practical difficulties in applying the infant industry argument. When a government starts handing out tariff favors, it is extremely difficult to exercise judicious discrimination, to say to Jones, "Yours is a line of manufacture in which the country's

prospects are good, and we shall protect you"; then turn to Smith and say, "Nothing doing! You are not in the right line." This is practically impossible, for politicians must consider the different parts of the country, and wise discrimination in tariff matters would not get the approval of representative bodies. In this respect Federal governments are placed in a particularly disadvantageous position. To protect the woollen manufacturer of Massachusetts but not the sheep raiser of Utah looks like favoritism. The representatives from Utah will not listen to arguments for such discrimination; they are in no mood to consider the differences and limitations which economists like List placed upon their advocacy of protection. Our tariff history in the Nineteenth Century amply illustrates the truth of these statements, and in our tariff making the practical result was that anyone who was prepared to risk capital in an industry got protection for it. We even laid duties on raw materials and farm products when it meant straight loss, nothing else. We placed duties on imported wool when there never was a chance or hope of getting wool in the end cheaper thereby. Business men looking to their own advantage merely and not to the national interest are naturally protectionists. Why should they not be? One of the greatest problems that besets the manufacturer is to meet competition, and how can foreign competition be met more easily than by high tariffs? There is then no need to worry about newer and cheaper productive processes, no racking of brains for constructive ideas, for inventions to benefit the whole community. If the government will only compel our people to buy their products all will be well. With a government so obliging, why should our business men hesitate to grasp tariff favors? The practical result has been that industries which could not face foreign competition have been given more and more protection. For the most part they were started in the days when the infant industry argument was in high favor. Not possessing a comparative advantage in these industries they should not have been encouraged, but once started, vested interests required protection. Such infants will never grow up, will never be able to walk alone; they still need and always will require the helping hand of government.

It would be very hard indeed to exercise wise discrimination in the matter of tariffs, even were the deals of politicians entirely obviated, and such questions settled wholly on their merits. Suppose an industry appears to be well adapted to a country, and under the encouragement of protection capital is invested in it, and labor is attracted out of other industries, where because of comparative advantage wages are high. The wages paid in the new industry must be up to the general standard for similar work. After a while it is found that the industry though well adapted to the country is still at a disadvantage, inasmuch as there are other industries that are better adapted, in which productivity is higher; and, in which, therefore, wages would naturally be higher under a régime of freedom. In such an industry were protection removed, wages and profits inevitably would be forced down, and in the long run the industry might stop altogether. The workers would betake themselves to the more productive work, rather than accept lower wages, and capital would cease to flow into a decaying enterprise. Of course, where there are many such industries, the general removal of protection would cause an industrial upheaval, for capital and labor cannot shift suddenly. Here then is the real meaning and point to the argument that protection is needed to give employment to labor and to keep wages high. The argument is applicable only to those protected industries which are not properly suited to this country. Workmen who demand our regular standard of high wages can be *employed in those industries* only by the maintenance of protective duties. It is, therefore, true that *so long as workmen remain in those industries their high wages are dependent upon protection*. But this is not to say that high wages in general are dependent upon protection, and it is wholly untrue to say that wages in general are raised by protection; on the contrary, they are lowered, in so far as workmen are buyers of the protected articles which could be purchased more cheaply abroad. Throughout this discussion it must be remembered that we are talking about *real wages*, the amount of goods and services which a wage earner can command in exchange for his labor. It is obvious that money wages might be increased, but if the cost of other things rose in the same proportion, there would be no gain,

while if prices are raised in a higher ratio, there would be an actual decrease in real wages; and this is what happens to the workers in those industries which are highly productive, when they part with some of their earnings in the purchase of commodities made in less productive industries dependent upon protection.

What is the use of protecting industries in which we have no advantage? Are not such industries parasitic, and would it not be better to remove the shield of protection, and let the foreigner force them out? To do so slowly so that the necessary readjustments could take place with a minimum of disturbance would be sound policy. The workmen would find employment in the exporting industries where the value of their marginal net product equals their wage, so that the national loss caused by the misuse of their productive power is ended. But, replies the protectionist, their entry into the other industries would force wages down; in the end if all are employed overproduction will result, prices will drop, bringing wages down with them. However, this contention, as so frequently happens in the discussion of economic problems, leaves out of consideration important counteracting forces. We must constantly keep in mind the effects upon the trade balance. The foreign imports which have displaced the former home manufactures must be paid for, which means increased exports, and the labor shifted to the exporting industries will be employed in producing the increased exports. *The home market will be destroyed only to give rise to a more advantageous foreign market.* More goods will be imported in exchange for more of our exports. The result would be a general rise in real wages, for the cheaper imported commodities would enable the workman to obtain more in exchange for his labor. This tendency would be further advanced by the enlargement of the exporting industries, for the action of increasing returns would tend to lower the price of the exported articles in the home market as well as in the foreign. Within the country there will result higher wages all round, and this is precisely what we should expect from the more productive use of labor. Therefore, the argument that protection makes wages in general high and keeps them high is utterly falla-

cious, and can only be foisted upon people untrained to economic analysis.

THE HOME-MARKET FALLACY

Closely akin to the wages argument is the home-market argument. Shut out foreign goods and the things previously imported will have to be made at home, and, argues the protectionist, an additional market will thereby be created. The fallacy lies in the word *additional*. Like so many fallacies in the discussion of international trade, the fallacy is only plausible when you ignore the fundamental consideration of the trade balance. Let us suppose that the importation of certain commodities is stopped by the protective duties; the trade balance will then have to be redressed, and exports of corresponding value will have to cease. The home market gained replaces the foreign market lost; protection brings about the substitution of one for the other, it does not create an additional market.

THE EMPLOYMENT FALLACY

Ask the average American workman in our great industrial centres why he is a protectionist and he will instinctively reply, "Because I want high wages and continued employment." We have considered the wages argument. Let us now consider the employment argument. The same fallacies will appear to be found in it, that were discovered in the home-market argument. Is it not clear, argues the protectionist, that if you shut out the foreign goods and compel our people to buy the American made products, there will be more work for the American working man? True, the goods will cost more but it is still more desirable to keep our own people fully employed. Their wages increase the demand for other American goods and this is good for business in general within our own country. Not only that, but the purchase of home-made products keeps the money in our own country, and so allows the national wealth to increase. Is it not, therefore, clear that the policy of protection is decidedly to the national advantage? Thus runs the common argument, and all the time the essentials of the

subject are lost sight of. The average man is struck with immediate effects. It is as plain as daylight to him that if the goods cannot be procured from abroad and are made at home, there will be more employment for our working people. It is equally clear that the foreigner goes away with our money. These arguments are plausible because people generally do not consider the effects upon the trade balance, or have the slightest idea how international payments are made. The average business man thinks of drafts when you talk about payments, and to him drafts mean cash. But our discussion of the previous chapter has fitted us to examine these arguments in a realistic fashion. If we cut off imports, we shall in the end cut off exports. By this policy we can create employment for some men, and at the same time throw others out of work. Now it is not possible to say offhand whether there is a gain in employment or not. Imports of a certain value cease, and exports of the same value also stop. But, though, the money values are the same, the amount of employment in both cases may not be the same. There may be a small net gain or loss in employment. It is, therefore, incumbent upon those using the argument to show that for us, in any proposed increase in duties, a net gain in employment is likely to arise. However, the orthodox protectionist is not going to argue about the possibility of a *net gain*, he is going to argue as if it were *all gain*, for no one is going to advocate a disturbing change for a small problematical gain.

It is a well known fact that in times of industrial depression, when "business is bad," imports are curtailed, and unemployment is widespread. On the contrary, booming imports and decreasing unemployment occur together. Causes making for general prosperity lead to the latter result. To increase employment, it is necessary to raise the national income, which means increasing the effectiveness of the agents of production already in use. Will protection increase the real national income? If you say that in the end it will, you are driven back upon the infant industry argument. The immediate effect is almost sure to be a decrease in productiveness, that is in income, which will have a tendency to decrease employment, and so far from achieving a beneficial change, it is likely to produce the opposite effect. It is not probable that

the exclusion of competing imports will enable us to make those goods as cheaply as we were able to get them by exchange, and so protection is not at all likely to increase the national income, and hence not likely to increase employment. Of course we are here concerned with employment in general; protection can be made to increase the demand for labor of a particular kind, and as most people do not reason deeply, the illogical leap from the particular to the general is easily made. As a cure for general unemployment, protection is the most absurd of quack remedies! The only way to cure general unemployment is to increase the volume of trade, while the central idea of protection is to contract trade by putting obstacles in its way.⁷

THE EFFECT OF PROTECTION UPON THE RATE OF
EXCHANGE OF COMMODITIES

It is sometimes contended that while protection causes a national loss due to the diversion of industry to less productive uses, yet this loss is compensated for by the effect upon international exchange. Suppose imports to be restricted, and a favorable balance developed, then gold will flow into the country levying the duties, causing a higher general level of prices, wages and salaries in the protected country, and lower level in the countries shipping gold. In the long run a new balance of trade will be reached at which the value of imports equals the value of exports, for in the protected country, rising prices will stimulate imports, while falling prices abroad will check exports. When the new equilibrium is reached what is the result? In the country imposing the tariffs, there will be higher incomes in money and higher prices. As far as home trade is concerned, real incomes will be no different than

⁷For a more detailed discussion of the various protectionist arguments, see Fawcett, *Free Trade and Protection*, pp. 88-133, and Sumner, *Protectionism*, pp. 114-155. A very good discussion of commercial policy, including tariffs, will be found in Gide, *Political Economy*, pp. 344-384. Taussig, *Principles*, Chapters 36 and 37, gives a good, concise analysis of the arguments for free trade and protection. The reader will observe that my own discussion follows the general lines of that of Professor Taussig.

they were before the imposition of the duties, since the money value of goods and of people's services and labor have both risen in the same ratio. But the higher money incomes are of advantage in purchasing things abroad, and so the protected country is enabled to get foreign goods on better terms than before. This is not a popular argument for protection; those who use it know something about economics, and are willing to concede that there is a balance of loss against gain, whereas the good old protectionist arguments, "the ones you can get away with," concede nothing. Take the case of the United States at the close of the last century. Protective duties caused us to manufacture many articles which could have been secured from abroad at a lower cost. As consumers of these goods our own people lost. On the other hand high tariffs insofar as they contributed to a higher range of money incomes made it easier for our people to procure from abroad other commodities such as tea, coffee, sugar, tropical products, raw materials, and finer manufactures, such as the higher grades of textiles. A day's labor in the United States, since it earns a higher money income, is enabled to command more of such foreign products, and even if duties are paid on them, there is no national loss, since the money goes into the Federal Treasury, and takes the place of other taxation. Whether, in such a situation, there is a modicum of gain or loss when the balance is struck there is no way of telling.

THE INCIDENCE OF IMPORT DUTIES

It is sometimes argued that import duties furnish a good way of raising part of a country's revenue, since a portion of the taxes so collected will be paid by foreigners. The sweeping sophism that "the foreigner pays the tax" is no longer used by any informed and honest person, though it found favor among protectionists of the last century, especially among those politicians who were either themselves ignorant or contemptuous of the intelligence of their auditors. The tendency of a tax upon a commodity is to raise the price and this in turn tends to decrease the demand. Now it may be for a while the producer will pay the tax or a considerable part

of it, if he cannot find a market for his product, except in the country levying the duty. But this is only a short period effect; in the end the duty will fall most heavily on the consumer. No producer will go on forever accepting profits below the usual level in his country, so that in the end the consumer will pay such a part of the tax, as will leave the producer with the usual rate of profit. Very often this means the whole amount of the tax, but in cases where the producer has a monopoly and makes unusually high profits, it is possible for the consumer to throw back upon the producer part of the tax, and in exceptional cases perhaps the whole of it, for even then the monopolist may be left with the usual rate of profit, so that there is no inducement to transfer labor and capital to other employments. Even so the consumer will not be able to do this unless the producer cannot find another market for his product. For a country to be able to tax the foreigner to any extent, it should possess what may be called a "buyer's monopoly," that is the people of the country levying the duty furnish the only market for the commodity, and in addition to this their demand must be highly elastic, for if their demand is strong and insistent, they will pay the tax rather than do without the goods. Needless to say the condition of a buyer's monopoly and an elastic demand is rarely, if ever met with, so that it is not possible to shift any considerable part of an import duty back upon the foreign producer.⁸

REAL PROTECTIVE DUTIES CAUSE PURE LOSS

Protective duties are designed to prevent the importation of foreign goods, and insofar as they achieve this object, there is no revenue collected by the government. But the people pay the tax just the same, only they pay it to the home producer as a part of the increased price. Under such conditions the tax is pure loss. So long as the commodity is imported and the duty collected by the government there is no loss, for the money will have to be

⁸ On the whole question of Incidence, see Seligman, *Shifting and Incidence of Taxation*, pp. 373-379 (1910 Edition). Edgeworth, *Economic Journal*, IV, pp. 39-48.

raised by some method of taxation. Like other commodity taxes, import duties may be justified and they need not be inconsistent with free-trade principles; they are only so when they differentiate in favor of the home producer whose product is not taxed. If an excise tax is laid on the home product equivalent to the import duty, there is no protection and no preferential treatment.⁹ The duty is then a commodity tax and its incidence must be judged as such. Generally speaking, commodity taxes will raise the price of the product by the amount of the tax, if the commodity is produced under constant returns. This as a rule is the most common case. If decreasing returns prevail, the price will be raised by less than the tax, for decreased demand will lower the marginal cost. Where production takes place under increasing returns, the result is reversed, and the price rises by more than the tax, due to the increase in marginal cost when the demand is lessened.

THE WAR ARGUMENT

When all other arguments fail, the protectionist usually falls back upon the possibility of war. His policy is in the narrowest sense a national policy. He would have trade take place within the nation, rather than between nations, his ideal being that of the

⁹ Free trade does not mean that imports must not be taxed; it means simply that the duties must not be either protective or preferential. Neither does free trade mean *laissez-faire*. For example, an American citizen can believe wholeheartedly in free trade between the states of our Union, and still believe that his own state should regulate the work of women and children. There is no inconsistency in the British Labour Party putting through a free trade budget, and at the same time advocating social amelioration by state action. In this book, by free trade I mean simply the exchange of commodities between nations on equal terms, but I recognize fully that what things are to be made, and the conditions of their production, are matters for state regulation or even prohibition. Applied to the liquor traffic, my free trade principles would hold that, so long as the traffic is lawful, there should be no discrimination in favor of the Kentucky distiller of whisky over the Scotch. At the same time I favor and support the complete prohibition of the whisky traffic.

self-supporting, independent state; and in a world with the possibility of war ever present, such an ideal exerts a powerful influence. The protectionist who bases his arguments on the grounds of national safety contends that free trade is an impracticable ideal so long as the world is not effectively organized for peace. To this the internationally minded free-trader replies that the world will never be effectively organized for peace until free trade is the policy of all nations, that freedom of exchange will make for interdependence and in turn interdependence will make for peace, through linking the prosperity of each nation up with that of its neighbors. Protective tariffs aim to keep nations commercially apart. Frequently they cause ill-feeling between peoples, and governments resort to retaliatory action against one another. In short they are the greatest agencies at work making for national exclusiveness and international ill-will. And so we find ourselves in a circle, war makes for tariffs, and tariffs make for war. What is the way out? Well, the thing has got to be attacked from both sides, all agencies making for peace must be strengthened, all nations must become associated for the maintenance of peace through definite and effective guarantees of security. As this tendency to organized action for the maintenance of peace develops, it will permit a gradual lowering of tariffs. But that is only likely to happen in proportion as it is understood and recognized that for a nation as a whole, tariffs are poor business policy. Our attitude toward tariffs, judging them from the standpoint of war and national security should be the same as that toward any other form of insurance; they are the premium that the nation pays, but as the risk decreases, the premium should be lowered. On the other hand, once let nations begin to lower their tariffs and economic interdependence will grow accordingly, necessitating wider political organization to protect the more extensive community of interest which is sure to develop under free exchange.

We Americans do not think of tariffs in connection with war primarily. The decided majority of our people favor high tariffs for business reasons; if we did not think that way we should not have them. No people in the world feel so secure as we do, and

our tariffs to-day find their strongest support in the illusory belief that they make for national prosperity. Our citizens want high protection because it makes wages high and keeps them high, because it makes work for our people, because it creates an additional home-market, etc. Nor does it matter a bit that these arguments are fallacious; for it is not what is true that immediately influences action, but what people think is true. After the infant industry argument lost its relevancy here, these plausible errors replaced it, and their grip upon the minds of most of our people has been such as to keep us well to the forefront of protectionist countries. And, unfortunately, our example has been too widely copied. Few indeed are those who do not succumb to the *post-hoc* fallacy, and as prominent Americans frequently assert that "our prosperity rests upon the tariff," and that we have grown wealthy, because we were wise enough to adopt the policy of protection, is it any wonder that American example has been widely copied? As we led the way toward tariffs, we owe it to the world to lead the way toward freer trade, and the excellent thing about such a reversal of policy is that in the end we should benefit ourselves as much as the other countries. Thus while we help to create a more prosperous world, we at the same time help to create a more peaceful one.

We heard much during the war and we have heard much since as to America's purpose to lead the world in the ways of peace, but how few of our politicians who held forth in these strains ever thought that to make a good beginning, we should have to lower our tariffs. We Americans, thanks largely to our environment, are a peace-loving people; we are also business-like, and we should lower our tariffs quickly, if it were generally understood that we should gain thereby, that to-day tariffs cause national loss, and free trade national gain. Humanitarian sentiment and national self-interest both pull in the same direction.

However, most of our citizens still believe that "our prosperity depends on the tariff," and most of them could give you three or four unsound though plausible reasons for protection, to every sound one that they could advance against it. Why does the subject of international trade seem beyond the understanding of most

people? Why, for business reasons, have tariffs been so generally favored, considering the weight of rational opinion against them?

“THE INTERESTED SOPHISTRY OF MERCHANTS AND
MANUFACTURERS”

The most active support of protection comes from those financially interested in it. The average business man does not think much about the national but very much about his own good. If his business is a success under protection, why should he not be a protectionist? If he cannot face foreign competition, why should he not be pleased with governmental action which handicaps or destroys such competition? If the government will permit him by higher prices to tax his fellow-citizens to his own advantage, why should he object? Thus there arises a powerful, organized interest determined to maintain or increase protective duties. The pressure of such interests upon Congress is well known. But people do not like to appear selfish and avaricious, they like to think that what they do is also of general benefit, and thus arises what Adam Smith called the “interested sophistry of merchants and manufacturers.” After all this is only human nature. We want to do a thing, and it is not long before we find the reasons which give our course of action its ethical justification. A manufacturer who has grown wealthy under protection does not like to think that while he has personally gained, all the time he has been causing a national loss. And, in a democratic country it would not do if too many people were to think that way; such thinking would endanger the whole policy. Therefore, the beneficiaries of tariff protection must find arguments to harmonize their success with the national good, and so we are not long in learning that protection gives employment to our people, that it makes wages high and keeps them high, that it creates a home market, etc. Since people are generally ignorant of economic principles, they do not see the absurdity of such contentions. Most business men and politicians who use these arguments believe in them thoroughly. They not only have the will to believe, but they are honestly ignorant of the truth in such matters. They know no more about

economic theory than they do about geology, but while they keep silent about geological questions, they do not hesitate to express themselves glibly on economic matters.¹⁰

THE REASON FOR WIDESPREAD ECONOMIC IGNORANCE

It is not difficult to explain the prevailing ignorance upon economic questions. The science of economics deals with matters of business, and business men simply take it for granted that they are competent to deal with such questions, even though they have given the matter under consideration no special study. The public listens to them with respect, for it assumes that the successful business man is capable of elucidating economic principles. As a matter of fact, he is often hostile to theories and has only contempt for theorists. He boasts that he is a practical man and that theories do not interest him.¹¹ From his own experience he picks up a limited number of economic facts, and on this insufficient basis he generalizes; that his generalizations are faulty he is not aware, for the simple reason that he lacks the scientific training necessary to make him slow and hesitant in such matters. Once

¹⁰ The writer knows many quarry owners and granite manufacturers, and while they would refuse to say that a certain ledge of rock belonged to the Palaeozoic or the Mesozoic Age, they do not hesitate to give an opinion on an equally difficult problem in political economy, such as the incidence of a tax.

¹¹ The writer well remembers a conversation with an old Scotch friend who had been in the export business for over forty years. Meeting him on the street in Aberdeen one day as he was going to his bank, I observed that his bank book contained several American and Canadian drafts which led me to remark to him, "Well, the foreign bill is a great instrument and you have surely passed thousands of them through your hands in your long experience, but do you know how they come into being and what they really mean?" His answer, "Of course I do," surprised me for the moment till he added, "They are drawn on bankers and they mean money." Thinking that after his long practical experience he would be interested to learn something about the subject, I suggested that he read Lord Goschen's "Theory of the Foreign Exchanges," to which he replied, "I am a practical man, and I'm nae interested in your theories," so saying he turned around, and crossed the street to his bank. My old friend's attitude is characteristic of the practical man.

let a business man form an idea in this manner and about it he is likely to become very insistent. It is part of his experience, part of his life, and all the time his mind is closed to wider considerations; to suggest them only irritates him to the point where he exclaims in the most dogmatic fashion, "Don't tell me, I know." This attitude is particularly pronounced when the tariff is under discussion. The manufacturer and his workmen engaged in an industry which could not exist without protection are pretty sure to be convinced that "our prosperity depends upon the tariff," and that "it is necessary to make wages high."

All along scientific inquiry has been retarded by the ordinary man's regard for what he thinks is common-sense. The Copernican astronomy had to overcome this handicap. In similar fashion political economy had a difficult struggle with the "common-sense" views of Mercantilism. How was a nation to grow rich? By acquiring money, answered common-sense. Hence do everything to create a "favorable" balance, so that gold and silver will flow into the country. Even before Adam Smith the fallacies of Mercantilism were exploded by several able writers without much effect generally. And there are people to-day who hold similar views and regard them as self-evident truths. They will tell you that you ought to spend your money at home, and that protection is a good thing even when it raises prices, for "it keeps money in the country." In all such reasoning the real difficulty lies in the use of the term "money."

CONFUSION AS TO THE MEANING OF MONEY

The word *money* is used in three different senses, but as a rule, people do not distinguish between them.

1. Currency. We almost always associate the word money with the idea of cash, what passes from hand to hand in the making of purchases. In this form we all get our first impressions of money, and unfortunately some people never get any other.

2. Bank money. By far the greatest part of modern business transactions are carried on by means of credit instruments, checks, drafts, and notes. When the business man thinks of money his

thoughts naturally turn to these things, but even then on second thought he thinks of them as meaning in the end so much cash, thus overlooking their deeper significance as the modern mechanism of exchange.

3. Wealth. We habitually place a money value on things. Thus, if a man owns a down-town office building, we say that he is worth \$200,000 though he may possess little cash and have only a small deposit in the bank subject to check. Thus in ordinary parlance we speak of men who possess houses, lands, factory buildings, shares of stock, etc., as "men of money."

The use of this very elastic and ambiguous term money makes it well nigh impossible for people generally to think straight upon economic matters, especially upon questions of trade. *Trade is essentially exchange, and money is the medium of exchange.* The important thing in trade, the end to be kept in view is what you are to obtain and the terms of the exchange. But business men rarely think of their dealings in this way; sales for money they think of, and money conceived of as cash thus becomes the end they have in view. The farmer who takes six bushels of wheat to town and sells them for \$6.00 then buys a pair of shoes with the proceeds, is really exchanging six bushels of wheat for a pair of shoes, but he is not likely to think of the matter in that light. Why, even to this day, is so much stress laid upon exports? Simply because when we think of exports we imagine the foreigner paying over to us so much money, and contrariwise with imports we picture him taking money out of the country, and all the time the money of our mental picture is a very tangible, concrete thing, so much of the good hard cash which we all want so badly. The essential idea of exchange is hidden behind the camouflage of money. The obscuration is general. People work for money, it is what men go into business to "make," hence the importance of keeping it in the country, and the desirability of bringing it in. Mark well the ambiguity!¹² "Making money" is here synony-

¹² In the spring of 1917 the writer was sitting at breakfast in a hotel in a small Illinois city chatting to a couple of friendly "drummers," when a well dressed business man sauntered up to the table and took a seat. The jubilant expression on his face led me to remark that he

mous with acquiring wealth. So long as we use money to mean coin, mechanism of exchange and wealth, and mix these conceptions up in the same sentence or paragraph, as speakers and writers on protection habitually do, we shall not be able to think clearly about international trade and finance.

Ignorant opinions about the tariff are not confined to ordinary business men, but are voiced by politicians of high position. Listen to this: "We are importing at the rate of about \$300,000,000 worth of foreign goods per month into the United States. Most of these goods could be made here. There is not a manufactured article produced in the United States in which the labor cost is less than 90 per cent of the total cost following the raw material from start to finish. Now, if that is true, of the \$300,000,000 that we are sending abroad each month to buy foreign-made goods, \$250,000,000 is going out from the people of the United States to employ German, French, English, Japanese, and Chinese labor, while our own workers walk the streets in idleness. Unless the American valuation plan is adopted there is little hope of the American manufacturer securing adequate protection against foreign-made goods, and there is little hope of this country being put in position to maintain the present standard of living of the American working man and woman."¹³ Who could have talked

was evidently very happy, whereupon he exclaimed: "This war is going to be a good thing for business! Our firm has landed some good contracts for the British Government and 'Uncle Sam' is going to furnish the money. I am a Republican myself, but I hand it to this Administration. I see by the paper that they are going to loan the Allies a lot of money, but they are to see that it is all spent over here. We won't lose anything as none of the money is going out of the country. And when the war is over the Allies are going to pay us back, so we get it going and coming." His enthusiasm was so contagious that one of the salesmen exclaimed, "I take my hat off to McAdoo, he's a wise guy." And the other added his amen in the form of, "I say he's some financier." Because the writer tried to put the matter in a different light, he became the object of somewhat contemptuous and pitying glances from the three, and it was not long before one of the drummers passed a remark about the number of "dubs" one meets on the road now-a-days. Such cocksure ignorance is more widespread than economists suspect.

¹³ Boston Herald, September 30, 1921.

so foolishly? Certainly no one who has given any serious thought and study to matters of international trade, surely no one having anything to do with the tariff! If you judged politicians by the ordinary standards of life, you would be right in that supposition, but politics differs from other professions in this respect, that knowledge or trained judgment is not an essential requirement. If you want to build a bridge, the work will be directed by a competent engineer; if you are sick, you want a skilled physician; but, if it is the little matter of making a tariff which affects only a hundred million people, why anybody can do that, and so you are not surprised when you learn that the above quotation is from an address delivered on September 29, 1921, in Chicago, before the National Conference of State Manufacturer's Associations, by the Hon. J. W. Fordney, then Chairman of the Ways and Means Committee, of the House of Representatives. Apparently Mr. Fordney has never heard of the trade balance, does not know that imports pay for exports, has no idea of what a bill of exchange really is and what lies back of it! Mr. Fordney pictures in his mind three hundred million good American dollars leaving the country "to employ German, French, English, Japanese, and Chinese labor while our own workers walk the streets in idleness." That would make a pathetic scene if it were true, but fortunately it is not. The other side of the picture is that of Americans at work making the goods to exchange for those coming in.¹⁴ Sup-

¹⁴ While on a motor trip through the Middle West last summer (1925) I happened to pick up in some small cities local papers which apparently carried an inspired editorial with the following quotation, attributed to Abraham Lincoln, as the text:

"When we buy goods from the foreigner we get the goods and the foreigner gets the money. When we buy goods within our own country we get both the goods and the money."

The editors then proceeded to argue for protection because it would give us both the goods and the money. But, obviously, at the time Lincoln made this statement (if he ever made it,) he knew practically nothing of international finance. Abraham Lincoln is justly a great and honored figure in our history, but anyone who has studied his career knows that he was never a master of finance. His latest biographer, Dr. William E. Barton, rightly points out his limitations in dealing with financial questions and remarks that of all the committees of the Illinois Legislature the Finance

pose Mr. Fordney could put through a tariff so stringent as to exclude imports altogether what would he do to provide new employment for those at present engaged in our export industries whom his policy would throw out of work?

COMMON-SENSE AND ECONOMIC ANALYSIS

Our analysis of international trade in this chapter and the previous one has made it abundantly clear that the so-called common-sense views of the business man and the politician are in fact superficial, that deeper thought reveals considerations out of sight at first. This is characteristic of economic inquiries. "Natural instinct will select rapidly, and combine justly, considerations which are relevant to the issue at hand; but it will select chiefly from those which are familiar; it will seldom lead a man far below the surface, or far beyond the limits of his personal experience. And it happens that in economics, neither those effects of known causes, nor those causes of known effects which are most patent, are generally the most important. 'That which is not seen' is often better worth studying than that 'which is seen.' Especially is this the case if we are not dealing with some question of merely local or temporary interest, but are seeking guidance in the construction of a far-reaching policy for the public good; or if, for any other reason, we are concerned less with immediate causes, than with causes of causes,—*causæ causantes*. For experience shows, as might have been anticipated, that common-sense, and instinct, are inadequate for this work; that even a business training does not always lead a man to search far for those causes of causes, which lie beyond his immediate experience; and that it does not always direct that search well even when he makes the attempt. For help in doing that, everyone must perforce rely on the powerful machinery of thought and knowledge that has been gradually built up by past generations. For indeed the part which systematic scien-

Committee on which he had a leading part was the one for which he was least fitted. At that time he was an ardent follower of Henry Clay, and read the eminent Whig leader's speeches on the tariff with uncritical delight.

tific reasoning plays in the production of knowledge resembles that which machinery plays in the production of goods.”¹⁵

THE FUTURE TARIFF POLICY OF THE UNITED STATES

From the close of the Civil War to the end of the last century, the great financial interests of this country backed strongly our manufacturers in their demands for high protection. To-day they are cold and indifferent; to-morrow they will be lined up in active opposition. This change in attitude is not difficult to explain. So long as the United States was thinly populated and manufacturing undeveloped, the highest returns could be obtained from investment at home. Our rapidly expanding industry not only used to the full our own financial resources, but attracted in addition a great amount of capital from abroad. To-day conditions are changed, our infant industries have grown to such an extent that we are industrially speaking a relatively old country. Higher returns to capital can be obtained from South America, Asia, and other undeveloped parts. So American finance is reaching out, it wants to play a larger part in the business of the world. Did not some of our bankers during the War dream of New York supplanting London? But, as soon as we get down to fundamentals, we see how high tariffs will handicap American finance in the international field, where the credit instrument is the bill of exchange arising out of international trade. If American finance is to play a larger part in the world's affairs, it will require a considerable expansion in our international trade, an all around increase in exports and imports. As the protective policy obstructs this, our financial interests are becoming opposed to it. If our bankers are to invest heavily abroad, we must be prepared to accept a greater volume of imports; as a creditor nation our trade balance in the end will naturally show an increase in imports over exports to take care of interest payments.¹⁶ Foreign investments and high

¹⁵ Marshall, *Principles of Economics*, 6th Edition, Appendix C., p. 779.

¹⁶ This prediction can be made with full confidence. More than a half century ago the distinguished British economist, Professor J. E. Cairnes, made the converse prediction from a study of our post Civil War financial

tariffs are, therefore, contradictory policies, and our financiers understand this.

Not only are our bankers opening their eyes to world opportunities, but they are also beginning to discriminate among our own industries; they are beginning to show a preference for those in which we have a natural advantage like the automobile industry. Such an industry is not dependent upon protection, and the ups and downs of politics will not affect it, for its success rests upon a sound economic foundation. We have many such industries, and many duties in our tariff schedules which are *nominal*, the goods being sold as cheaply here as anywhere and the imposition of a duty causes no rise in price,—a fact which goes far to explain why international trade the world over has grown rapidly in spite of tariffs. Such industries not only satisfy the needs of our own market, but they also produce a surplus for export. American bankers are wise in giving preference to such industries, not only because distinct economic advantage is after all the best attraction to investment, but also, because the export activities of such industries will fit in with the larger purposes of American finance in the world's affairs. Agriculture and many manufacturing industries that get nominal protection have nothing to gain, and everything to lose from high tariffs.

Here then are the forces lining up against the tariff, the agricultural interests, the financial interests and those engaged in those manufacturing industries which are capable of taking care of them-

balance. During the War and after we borrowed heavily abroad. For the fiscal year ending June 30, 1872, we had an "unfavorable" balance of over 182 million dollars. Writing in the fall of that year Cairnes declared that such a balance indicated that the United States was still borrowing abroad, and if the reports that we were to cease borrowing were true, then the balance of our exports over imports would soon become "favorable." (See his *Leading Principles*, p. 370) This prediction was completely fulfilled. By 1874 we had a "favorable" balance of nearly 19 million dollars, and by 1878 it had grown to nearly 258 million dollars. During the past three years our merchandise and bullion balance has been "favorable" to the extent of nearly 1500 million dollars. A conservative estimate would, therefore, place our loans abroad during this period at 2500 millions. When we cease making loans our "unfavorable" balance will appear.

selves without protection. This leaves only a small minority who derive advantage from high protection, the minority who operate their industries at a national loss. What shall we do with them?

If we are to increase the prosperity of this country, we must get rid of those industries which cannot in the face of free competition pay the normal American rate of wages and give the normal return to American capital. While it would be foolish indeed to allow these industries to go on forever taxing the nation as a whole to make up for their economic disadvantage, still the sudden removal of protection would be unjust. Our citizens have invested heavily in such industries, and costly plants have been erected on the supposition that protection could be counted upon, and to remove the duties without warning would be grossly unfair. But every sound consideration of national policy will force even the Republican Party to announce a change of attitude with regard to the tariff. Naturally it will be the party of conservatism and caution in this matter, but that its policy will change few can doubt, seeing the powerful elements growing up within the Party itself whose interests are opposed to protection. Sound American policy will aim at a *gradual* reduction in the duties. To be sure manufacturers exaggerate their need for protection, and we shall expect to hear a great outcry about their inability to meet foreign competition. This assertion can best be met with the promise of a subsidy in cases of manifest injury. American business men do not like subsidies, and our people generally are opposed to them. The granting of a subsidy is a transaction too obvious not to be understood. Where a protective duty is required its action is precisely the same as the granting of a subsidy. In the one case the government taxes its citizens and hands the money over to the favored industry, and in the other case it grants the privilege of taxing its citizens, by means of higher prices, to the industry. But few people ever try to figure out what part of the price is a tax to a protected industry. And, while the meaning of a subsidy is clear to anyone, the meaning of a protective duty, as we have seen, can be camouflaged behind a formidable assortment of fallacies; so successfully has this been done that people outside the favored industry have been made to believe that instead of tak-

ing something out of their pockets the duty actually puts something in! Business men will do everything in their power to get along without subsidies, but they have never assumed that attitude toward protective tariffs. Hence, the subsidy is likely to prove of great use in the transition to freer trade. It will not, because of its unpopular and temporary nature, have the deadening effect upon ingenuity that protection has often caused through removing the stimulus of foreign competition.

Protection as the name implies is a policy for the weak, and has always found favor with new and undeveloped countries, but the justification for it in the Nineteenth Century no longer exists in the United States. Possessed as we now are of the greatest corporations with the largest manufacturing plants in the world, plants whose productive powers are increasing year by year making necessary the acquisition of wider foreign markets, the industrial and commercial position of the United States is very different from what it was say fifty years ago, and completely changed from what it was in the days when List advocated protection so forcefully. In moving in the direction of freer trade, our practical programme should include—(1) the fixing of a definite time, say twenty-five or thirty years hence, when tariff restrictions on trade will vanish entirely; (2) a gradual lowering of tariff duties to the vanishing point; (3) the granting of subsidies in the case of real hardship while the transition is being effected.

Among the policies making for peace and prosperity, freedom of trade deserves a prominent place. As Cobden clearly saw, unrestricted trade by making the nations more and more interdependent will give them all a powerful common interest in the maintenance of peace. But the gratifying conclusion is that the man of Christian spirit whose purposes are ruled by humanitarian impulses finds the great majority of us whose purposes are ruled by self-interest, in complete agreement with him, for prosperity as well as peace is promoted by freedom of exchange. Economic advance has followed the widening of the area of freedom. France before Colbert with its Provincial restrictions was a sorry sight, so were the German States before the *Zollverein*. The same reasoning which tells us that it is a good thing for Hanover to deal

with Bavaria, for New York to trade with California makes out a strong case for the free exchange of commodities between France and Germany, between the United States and England. The economic historian tells us that the trouble with France before Colbert was that the French people could not think nationally, and the same thing was true of the German States at the beginning of the Nineteenth Century; they did not order their economic life wisely, because they did not take a broad enough view. Will the historian of the future make substantially the same criticism of us? Will he say that we have not organized the economic life of the nations of our day wisely, because we did not think internationally, and, therefore, could not take a view as wide as our interests required? Of the years before and during the war this criticism is tragically true. Even to-day it is generally recognized that before complete freedom of trade can come many old nationalistic prejudices and animosities must be swept away. But, somehow, we feel that the war marked the close of an era, the era of aggressive nationalism. The war and the economic conditions immediately following have opened men's eyes. The economic chaos in Europe and its world-embracing effects show how far the nations have advanced in the way of economic internationalism. These baffling post-war days have given us a clearer understanding of the necessity for sound and vigorous international trade on the part of all the great nations. That understanding will grow even more clear and complete before the economic problems raised by the war are settled, and this fuller understanding will create a powerful incentive toward the removal of trade restrictions, while, at the same time, it will in all of the commercial nations intensify the demand for the maintenance of international peace.

CHAPTER III

High Tariffs, Our Farmers and other Exporters

THE influences which led to the enactment of the Fordney-McCumber Tariff are easily discerned. The Republican Party had swept the country in the election of 1920, and the revision of the tariff schedules upward was a foregone conclusion when the new Congress met. The Democratic revision of the tariff in 1913 had lowered the rates all around to a considerable extent. The Payne-Aldrich Act of 1909 provided an average rate on dutiable articles of 40.7 per cent, and an average rate on all imports (free and dutiable) of 19.4 per cent. The Underwood Tariff lowered these rates to 27.2 per cent and 9.2 per cent respectively. During the presidential campaign of 1916 the Republicans declared that only the outbreak of the European war saved our country from a long period of industrial depression and that the rates of the 1913 Act were ruinous to our prosperity. In 1920 they repeated this argument, adding that as soon as the European countries got back to normal industrial conditions, we should understand the folly of downward revision. In addition to this the war had intensified our nationalistic spirit, which strengthened the demand for economic self-sufficiency and independence and greatly helped the cause of those manufacturers who wanted protection for the industries which the war had brought into being—the so-called “war babies.” Another factor working for high protection in 1922 was the attitude of our western farmers, who were brought face to face with a severe decline in prices during 1920 and 1921. The result was the demand for high protection on the part of our agricultural interests, which led to the enactment of the Emergency Tariff in May, 1921. The Agricultural Bloc received from the representatives of the manufacturing states a free hand in making the rates on farm products to their liking, with the result that: “When it came to the duties on manufactured articles, they could not

easily oppose, as they had done in 1909, rates which seemed burdensome on the consumers. Thus no moderating influence was of avail in the 67th Congress. The Democrats were hopelessly outnumbered, and even in their slender minority not a few were committed by having previously bowed to the agricultural clamor. Among the Republicans a word of protest was heard now and then, but was hardly listened to. The outcome was a tariff with rates higher than any in the long series of protective measures of the whole period. It went beyond the acts of 1890, 1897, 1909. The special conditions of 1921-22 led to an extreme of protection which few had thought possible."¹

WHAT FOOLED THE AGRICULTURAL BLOC

The honorable and useful gentlemen who compose our Congress are unfortunately, with rare exceptions, not economists. Pick up the Congressional Record containing a tariff debate, and you will not read far before seeing that you are not to learn anything scientific about the position of the United States in international trade. At election time, when the tariff is under discussion, Republican politicians bring out the old and tried arguments, especially referring to the high wages and the steady employment which protection is supposed to provide. The Democrats counter this by condemning the high cost of living which the tariff produces. These arguments are simple and easily understood by popular audiences; hence their widespread use. The average man judges between them according to his own case; he balances what he thinks will be the increase in his wages against the rise in his cost of living, and if his father voted the Republican ticket, he is likely to do so too, concluding from past experience that his wages will rise more than living costs. On the other hand, if Democratic influences were strong at the family fireside, in his mind there will be found the will to believe that protective tariffs

¹ Taussig, *Tariff History of the United States*. New York, 1923, p. 453. It is no part of our purpose to discuss the details of the Act of 1922. Those who desire such a discussion are referred to the added Chapter X. of the above standard work by Professor Taussig.

are robbery, and that Republican politicians are the tools of predatory interests. Out of the popular debates of the last generation there has emerged the very general belief that tariffs somehow promote prosperity and at the same time benefit the domestic producer by raising prices. When the great decline in prices in 1920-21 hit our farmers more severely than any other class within the country, naturally enough this idea gradually entered the minds of their representatives in Congress. The Agricultural Bloc came to favor high protection all around, and to them the reason was clear enough; it would bring prosperity to the country, and the imposition of duties would raise the prices of farm products. In this they were grievously mistaken; the mere imposition of a duty does not raise prices. It will do so only if a foreign supply is cut off, and a more expensive domestic one is substituted, or a domestic monopoly fostered. The United States exports all the important farm staples, wheat, oats, corn (maize), etc.; not only do our farmers supply our own needs, but they produce annually a huge surplus which must be marketed abroad. This being the case, protection to agriculture is purely nominal. We should not be misled over some relatively unimportant things, such as the wool clip. We have to import wool, and always will have to import the best grades from Australia or New Zealand, so that the protection to the sheep raiser is real protection. The same is true of the beet sugar and the cane sugar crops, but that does not mean that the Southern planters will benefit by protection all around, for what good would a duty on raw cotton be? The idea of protection all around, to farmers and manufacturers alike, is one of those apparently fair proposals which are essentially unjust, because the higher price level of manufactured articles generally, is not offset to the farmers by a correspondingly higher price level for agricultural products. Take a concrete case. Suppose some means were found to raise the price of wheat in the United States above the Canadian price, an increased European demand for Canadian wheat and a concomitant decreased foreign demand for our wheat would result, causing the price to rise in Canada and to fall in the United States, and a position of equilibrium will be reached only when the price is the same in both countries. So

long as the American farmers produce a surplus which must be marketed abroad, and so long as the European countries are free to buy where they please, we shall not by protection be able to raise the price of the staple farm products above the level fixed in the markets of the world. The more generally this is understood by western Republicans, the more determined will become their opposition to "higher tariff duties all around."

There is a wide gap between the positions of the western farmer and the New England textile manufacturer; for example, corn, wheat and oats are raised as cheaply in our western states as anywhere in the world, but the better grades of cotton and woolen cloth are not made as cheaply in New England as in Europe, hence while "higher tariff duties all around" give only nominal protection to the farmer, they give very real protection to the textile manufacturer. The farmer gets no increase in price to offset the increased cost of cloth to him, and the farmer is bound to lose in the exchange of say wheat for cotton cloth, which looking behind the camouflage of money, is the essential thing in trade; in short "protection all around" reduces the real income of the farmer, the income of goods and services which he can command. Is it any wonder then that the farmers are becoming sceptical about general increases in duties? To meet their opposition, the old reliable home-market fallacy has had a harder time than usual. Still it has been pressed into service. Ex-Senator Henry F. Lippitt of Rhode Island was one of those who rehearsed it to the Senate Finance Committee, when he urged that the 22 per cent average duty on the finer cotton cloths be raised to 40 per cent *ad valorem*. Mr. Lippitt said the schedules should be scrapped and entirely new ones written to cover all the various grades of cotton goods manufactured, with a greater degree of protection for each. Referring to what he described as reported opposition by the agricultural bloc to high protection for eastern industries, Mr. Lippitt told the committee that the textile industry was a basic one and that as it prospered so would the rest of the country prosper. "If imported goods were kept out," he said, "*the money that would otherwise go abroad would remain at home to the benefit of the American farmers and manufacturers generally.*" (The italics

are the writer's.) Mr. Lippitt is a man of great wealth, and yet he would probably be as hard pressed to explain what he means by *money* in this connection as the practical electrician would be to elucidate the electron theory. The money which would stay at home would be drafts. Mr. Lippitt would make it unnecessary for an American merchant to remit to the Lancashire cotton manufacturer, by having a considerate government prevent such purchases by high protection. Let us suppose that the draft which our merchant would remit has been drawn against a shipment of wheat from Kansas, bearing in mind what we learned about the foreign exchanges. The same policy which checks the importation of cotton cloth also checks the exportation of wheat. In the last analysis Mr. Lippitt proposes that the western farmer exchange his wheat for cotton cloth made in New England, and his argument is to this effect, "If the farmer deals with the Englishman, he will obtain three yards of cotton cloth in exchange for a certain amount of wheat, but if he has to deal with us, we shall be pleased to give him two yards," and that "will be to the benefit of the American farmers and manufacturers generally." Mr. Lippitt's argument is plausible only because its real point is obscured by the mist of money. It cannot be too often repeated that, if people would stop thinking of sales and money dealings, and direct their thought to the terms of exchange, these questions would be more widely understood. If people generally would conceive of their incomes in realistic fashion, as incomes of goods and services, they would soon understand whether high protection were to their benefit or not. This is fundamental in economic inquiries, if we are to judge of prosperity over different periods of time and under varying conditions; money incomes tell us little when they are not correlated with the general level of prices prevailing at the same time or under the same conditions. The farmer who really wants to find out what effect protection to the textile industries has upon his income can do so by figuring out how many yards of cloth he is able to buy from our manufacturers with the selling price of a given quantity of grain, and the number of yards which he would be able to get for the same price in England. When due allowance is made for the cost of transportation, he

will still find that protection means to him a considerable loss in real income.

Furthermore, had the representatives of our farmers possessed the most elementary knowledge of international trade and finance, after the war they would have lined up solidly against any increase in protective duties. They would have taken into consideration the effect of the war upon our international financial position. *The change of our country from a debtor to a creditor nation has an important bearing on the ability of our farmers to market their surplus products in Europe*, but the representatives of our farmers seemed all oblivious to our changed financial position and the way it would inevitably react to the detriment of our agricultural interests. Accustomed, as politicians are, to discussing tariffs without reference to the trade balance,² it was the most natural thing in the world for Republican leaders to show no realistic grasp of our post-war condition. The old reliable Mother Goose arguments were hummed in 1922 just as they were in 1890. The war produced many changes in mental attitude, but the one thing it did not do was to change the attitude of the politician on tariffs. Relativity may be an old idea in philosophy, but there is no place for it in practical politics. It may even change profoundly our attitude towards scientific problems, but one thing it will not do and should not be expected to do, and that is to change the average politician's attitude towards the tariff! Now it is perfectly clear to the ordinary person who has not thought much about the subject that the prosperity of this country since the Civil War has resulted from protection to American industries. There is some wonder working magic in the tariff that does the thing. On the other hand the serious student of economics is sometimes at a loss to explain why the Republican Party, the party of high protection, should be dominant in the manufacturing North and New England, while

² At a time like the present it is exceedingly regrettable that men high in public life have so little grasp of economic principles, and that on the tariff question their minds were set in the last decade of the Nineteenth Century. For example, "American industry cannot exist, American wages cannot be paid, the American standard of living cannot be maintained without a protective tariff."—President Coolidge in an address to the United States Chamber of Commerce at Washington, October 23, 1924.

at the same time it retained its hold on the agricultural West. There is no mystery in this; it was due to the working of unusual economic causes.

EUROPEAN INVESTMENTS AND OUR EXPORTS

Even after the Civil War we were still industrially immature. We did not possess all the capital that we needed for the development of our resources and the building up of an extensive manufacturing industry. We did have, however, a domain of very great promise, especially if the markets of this great country were to be reserved for the home producer. There were statesmen with a perfectly sound knowledge of economics who were brought by our circumstances to favor high protection. They were willing to admit that it caused an immediate national loss, but the prospect of large profits which it held out would attract the European capital which we required, and hasten the development of large scale manufacturing here. At this point the infant industry argument was brought in to supplement their views and to justify the policy as a long run measure which in the end would bring compensation for immediate loss. Most of that loss, however, would fall in the first place upon our farmers, who would have to pay higher prices for the commodities which they used. Their real income, as the economists pointed out, would be reduced, since they would have to exchange their produce on less favorable terms; for example, the price of a bushel of wheat would buy less woollen cloth in Massachusetts than it would in Yorkshire even when allowance was made for freight. Not only that, but the excluding of the Yorkshire cloth would injure the market in England for our farm products. At this point, however, one great compensation appeared. The capital which we attracted from the European countries bore a good rate of interest, and *the payment of the interest abroad created a good market for our surplus agricultural produce.* The amount of European capital invested in the United States up to 1914 has been variously estimated from six to seven billions of dollars, on which we paid somewhere around four hundred millions of dollars interest. During the war, in order to facilitate

their enormous purchases in the United States, the European countries sold in our markets the great bulk of our securities which they held. The amount of interest bearing obligations which we were enabled to get back in this way is usually placed at something like five billions of dollars. We have, therefore, been relieved of the necessity of paying annually in interest to Europe nearly 300 million dollars,—the largest single item making for the excess of exports which with us was an annual occurrence prior to the war.

After we entered the war, our government proceeded to loan money to our associates in extraordinary amounts, so that at the time Congress was considering the revision of the tariff, there was owing our government by the Allied Governments a sum well over ten billions of dollars. The British Government has arranged for the repayment of their debt of 4600 million dollars, over a period of sixty-two years, by annual instalments varying from about 160 to 187 millions. The Italian Government has recently settled their indebtedness of about 2000 millions, by annuities ranging from 5 to 80 millions of dollars, over a period of the same duration. The French debt of nearly 4000 millions remains unsettled. M. Caillaux offered annuities over a period of sixty-eight years ranging from 40 to 100 millions of dollars, but our debt funding commission refused his offer. Add the annual payments of our smaller Allies, and we find that the interest and amortization charges will come to something between 300 and 400 millions per annum. In addition to government loans it has been estimated that private persons in the United States have since the outbreak of the war loaned to foreigners, particularly Europeans, sums which total nine billions of dollars, on which interest and amortization charges will come to about 550 million dollars per annum.³

Add the three items above, interest which we are no longer required to pay, the annuities our government is to receive from the Allies, and the interest due to our citizens, and you have a net

³ Nine billions would seem to be a conservative figure. See the "New Republic" for January 27, 1926, p. 252 where our loans are placed at eleven or twelve billions. However, judging by our trade balances since the war, this seems to me to be too high a figure.

alteration in the international financial position of the United States that comes to around 1200 million dollars annually. How will this alteration affect our international trade? The trade balance or equation of indebtedness which we studied in the first chapter now comes up for concrete discussion. We have to work out a new equation which will take care of the above change amounting to 1200 million dollars. We stated the equation of indebtedness in these words, "Over a definite period of time, the sums owed by a country equal those due it." We now see how important the time element is. For example, the British government owes our government 4600 millions of dollars, but we do not take this total sum, only the amount which Great Britain has agreed to pay annually which is around 180 millions. The same is true of private debts; it is not the total that concerns us here but the annual obligation.⁴

OUR TRADE POSITION AS A CREDITOR NATION

If trade conformed exactly to the changes in finance, then the shift in our trade balance would be an annual reduction in our exports of the value of three hundred million dollars, the interest which we now save, and an annual increase in our imports to the amount of 900 million dollars, to take care of the foreign indebtedness, both public and private, due us. As a matter of fact such conformity is extremely improbable. If the matter were left to the free play of economic forces, no one could predict exactly how

⁴On the time element in the trade balance, see Gregory, *Foreign Exchange*, Chapter III. When Mr. Gregory states that, "Adverse balances did not exist before the war," he is repeating in a novel way what Cairnes and Bastable meant when they wrote about the equation of indebtedness.

Since the above was written unexpected confirmation of my estimate has come to my notice. An Associated Press dispatch of February 26 stated that Dr. Julius Klein, director of the bureau of foreign and domestic commerce, told a House appropriation sub-committee that American investments abroad were now about \$9,500,000,000 exclusive of government war loans. It is interesting to note that Dr. Klein was explaining to the committee the difficulties facing American export trade. The dispatch I read is headed "OUR EXPORT TRADE IS FACING CRISIS," *Boston Herald*, February 27, 1926.

the change in the trade balance would be effected. All that we know is this: if we are going to be paid, there must somehow be brought about an excess of imports over exports, which will produce a net alteration in our trade balance of pre-war days to the value of about 1200 million dollars. Such an "unfavorable" trade balance can be created in a variety of ways. It could be done entirely by increasing imports relative to exports, or by decreasing exports relative to imports, or by a combination of both.

Such was the change in our financial position which existed when the tariff came up for revision. An intelligent economist studying the rates of the Act of 1922 would naturally conclude that it was the purpose of Congress to place the whole burden of the change upon our export trade. Yes, if he were strictly logical, he would conclude that it was their purpose, by a greater curtailment of imports, to place more than the necessary burden upon those who export. A tariff which raised duties on an average of fifty per cent, making some of them prohibitive, is susceptible of no other interpretation. But to say that Congress meant that their bill should deliberately hurt our farmers and those manufacturers who export is going beyond the bounds of legitimate criticism; it makes the unwarranted assumption that they were acting in an intelligent manner, and were able to discern the consequences of their Act. Republican Congressmen did exactly what was done in 1890, 1897 and 1909. They were actuated by the same motives and ideas, but unfortunately for them the war created an unprecedented situation, one which should not have been handled by the old and tried way of "muddling through."

The simple arguments with which the tariff has been handled for a generation completely unfitted our Republican politicians to deal with the post-war situation. Republican supremacy since the Civil War has rested upon a broad appeal to the manufacturing North and Northeast and to the agricultural West at the same time. With the help of our "favorable" trade balance the Republicans have been enabled to become the party both of the manufacturer and the farmer. The extent to which they have been favored by the trade balance, of course, never has entered the mind of the average Republican, who has not associated the payment of interest

with the exportation of farm products. But the trade statistics for the years before the war make that relationship quite clear. Consider our trade with Europe for the years ending June 30, 1913 and 1914. In the former year we imported goods to the value of \$892,866,384 and exported to the value of \$1,479,076,009. In the latter year these figures were \$859,602,868 and \$1,486,498,729 respectively. Thus with Europe we had a trade balance in our favor of nearly \$600,000,000 which paid for interest, ocean freights, immigrants' remittances, etc., as we explained in Chapter I: That "favorable" balance has disappeared, and if we collect the Allied debts, will turn to a decidedly "unfavorable" one, for only by creating a huge excess of exports to us over imports from us will the Europeans be able to get the dollar exchange wherewith to meet their obligations, public and private. Add to this unhappy prospect of our exporters the further considerations that we are now doing for ourselves a great deal of carrying trade⁵ and have restricted immigration severely, and you will understand that, as far as they are concerned, it was like adding insult to injury to raise the duties at all.

Had the Republican members of Congress from our western states been alive to the needs of our farmers, they would have resisted vigorously any attempt to raise the duties on manufactured articles. More than that, they would have demanded from their party colleagues representing the manufacturing sections that some *reduction* of duties be permitted, so that the main burden of the post-war readjustment might not fall with undue severity upon the farmers and other exporters. Instead of doing this, they joined in the demand for "high protection all around." The result was the enactment of a tariff diametrically opposed to the interests of our farmers. The Fordney-McCumber Tariff says to the Europeans, "We don't want your manufactures; we intend to buy less than ever," and the Europeans reply, "We shall have to get along with as little of your agricultural produce as possible, for

⁵ The total tonnage of our shipping engaged in foreign trade in the year ending June 30th, 1914, was 1,076,152; for a year ending June 30th, 1922, it was 10,724,590. These figures are taken from the Statesman's Year Books for 1915 and 1923.

we cannot buy if you will not permit us, and what products we are able to get over your tariff wall will be needed to pay the debts we owe you and to buy raw materials like cotton which we must have. You are no longer required to send us grain for interest on our investments, so good-bye.”

It is true that our government has not made much headway with the collection of Allied Debts, and so long as the Tariff Act of 1922 remains in force, that is a good thing for our exporters. In addition private persons among us are still making loans to Europeans, and to a considerable extent have been reinvesting the interest due them. Furthermore, some of our tariff duties have turned out to be only mildly protective, when it was hoped that they would be prohibitive. This has proved to be the case with the textile rates. The present tariff stands pretty firm in the way of larger importations of European manufacturers, and while it does so we shall expect the European demand for our agricultural produce to decline. Europe can raise more of the food that she requires, or she can buy it from countries other than the United States. Either way will permit her to create that excess of exports over imports which will be absolutely necessary if the European countries are going to balance their accounts with us and do business on a solvent basis. Without a world crop shortage, as in 1924, we have no reason to believe that European demand for our agricultural produce will not continue to decline steadily, unless we lower our tariff rates.

We closed the last three fiscal years with the following excesses in the value of exports over imports:

1923, \$175,774,000; 1924, \$757,619,000; 1925, \$1,040,692,000.*

These rising excesses of exports are due to the loans which we have been making abroad. It is estimated that in the last two years we have loaned not less than \$2,200,000,000. Such a situation cannot be permanent. When our country begins to play its full part as a creditor nation we must expect a surplus of imports

* These figures are taken from the *Monthly Summary of Foreign Commerce of the United States, Part II*, June, 1925, p. 76.

as a regular feature of our foreign trade. During the past two years our foreign markets have been sustained by loans. As a temporary expedient they are a good thing for our exporters; in the long run, however, they will make the change to an "unfavorable" balance all the more pronounced for us.

Our loans have not been great enough in recent months (Autumn, 1925) to prevent gold importations from again taking place. It is unfortunate that we are again beginning to draw from the outside world's gold supply, as it means a constant danger of inflation for ourselves and weakens further the currency basis abroad. However, this danger should be modified by the fact that many of the leading banks of Europe are using their cash balances in the United States as their principal or secondary gold reserves, and that our huge hoard of gold is not only the foundation of our own credit and currency structure but also that of many foreign countries.

1923 was the poorest year which the American farmer has experienced since the trying days of the early nineties; the worst year over a relatively prosperous period of a quarter century. The wheat farmer was particularly hard hit. If, however, one looks up the figures for 1923, he will find that measured in bushels we sold more wheat to Europe that year than we did in 1914. Using these figures Senator Watson declared that the European demand for our wheat was positively good, and that all complaints about the Tariff of 1922 were unjust. What is wrong with such reasoning? In 1914 prices of farm products were relatively good compared with prices of other things; in 1923 the price of wheat had declined relatively 40 per cent compared with the prices of manufactures. Instead of selling at a dollar per bushel in Chicago, it should have sold around one dollar and sixty cents, to bring the farmer as good a real income as he had in 1914. It is impossible to judge demand on the basis of price alone; quantity and price must be considered together. A good market does not mean simply one in which you can sell a large quantity of commodities, but one in which you can sell a large amount at a good price. In 1923 we dumped our surplus of wheat on the European market at a price which hardly covered our cost of production. The Ameri-

can farmer was forced to take the European price, because Europe furnishes him the only market for his surplus.

The remarkable rise in the price of agricultural products in 1924 was due entirely to scarcity conditions. Bad harvests in Canada and in Europe created such a demand for our products that prices rose in a wholly unexpected fashion. But the farmer would be sadly mistaken to believe that a definite change in his status has been brought about. The tendency during the present year in agricultural prices has been distinctly downward except for wheat. An unusual shortage in our own country and the prospect of a short crop in Argentina have sustained the price of wheat in the world's markets. But there are really no sound economic reasons why with good crops in Canada, Argentina, and Europe prices should not again return to the 1923 level. Nothing could be more disastrous to the American grain grower and stock raiser than to regard the prosperity which began in the fall of 1924 as a definite return to normal conditions. Should the farmer increase his acreage, incur new debts, neglect reforms in marketing, ignore the tariff, he will in a year or two find himself again in the situation which overtook him in 1920-23.

THE TREND IN THE EUROPEAN MARKET

So long as we retain our present tariff system, American agriculture is threatened with a complete loss of the European market, and that will mean a long period of stagnation and depression in agriculture. Those who look for a progressive betterment of conditions as a result of European recovery will be disappointed, unless the tariff is lowered. If we proceed to make the protective principle more effective, and exclude more of the European manufactured goods, we shall be doing our best to destroy Europe's purchasing power in our markets and to nullify the betterment which would come to American agriculture through European economic recovery. Since the war we have been doing our best to curtail Europe's ability to buy our produce. In addition to our tariff, we have restricted immigration and that in the end will mean restricted remittances to Europe. We are doing our best to compete with her shipping, insurance and banking services. We are the

greatest creditor nation in the world, and we insist that the European countries pay their war debts to us and soon will have the greatest "unfavorable" trade balance. Furthermore, these shifts in our trade balance are not being offset by other developments. On the farm, wages are high to meet the costs of living in this country, and with the growth of population there is now no cheap but good land available. Compared with conditions in the latter half of the Nineteenth Century the situation in agriculture is distinctly unfavorable; the real costs of American agricultural produce are rising, and are now higher than those of any other large producer. Transportation costs from our western fields to the Atlantic ports have greatly increased, and this is distinctly to the disadvantage of the grain grower and stock raiser who gets the Liverpool price minus the cost of transportation. Compared with the farmer of Argentina the American farmer in all these respects is at a disadvantage. At the same time all of these forces are working for increased development of home agriculture in Europe. So long as we use the tariff to exclude European manufactures, it is inevitable that American agriculture will continue to lose its foreign market and to suffer in the home market by excessive production which will force prices down at the time our protected manufacturing interests are keeping prices up behind the protection of our tariff wall. With our changed trade balance, it is difficult to conceive of a policy more injurious to our American Farmers.

BAMBOOZLING THE FARMER

The Tariff debate in 1922 proceeded along the usual lines; the same old arguments were used to the neglect of new considerations arising out of the change in our international financial position. Undoubtedly, Republican members of Congress from the agricultural states took their Democratic opponents seriously when they assailed the tariff for raising the cost of living. Popular Democratic arguments about adding billions to the cost of living, such as those used by Ex-Senator Walsh of Massachusetts are, however, as unsound as the usual Republican ones. Aside from a few relatively unimportant things such as wool, sugar, lemons, and beans,

tariff duties will not raise the prices of farm products at all. Duties of one-half cent a pound upon tomatoes, fifteen cents a bushel upon corn, thirty cents a bushel on wheat, etc., at the present time serve no useful purpose other than a gauge of Congressional stupidity. No tariff can increase the price of a great crop like wheat ⁷ with a large surplus which must be sold upon a competitive international market. Our experience with the Emergency Tariff should have taught this to our Congressmen. The lowest prices in 1921 for the following products were:

Wheat	\$1.79 per bushel,	Corn	\$.94 per bushel
Oats	.60 " "	Flour	9.00 " Barrel
Wool	.80 " pound		

In August, 1922, after the Emergency Tariff had been in force for over a year, the prices of these products had changed: ⁸

Wheat \$1.23,	Corn \$0.82½,	Oats \$0.44½	Flour \$6.50
Wool 1.15			

The only real protection given to our producers of the above products is in the case of wool, which is the only one of these things which we import. The duty raises the price of the imported material and permits the American sheep raiser to increase the price of wool accordingly.

⁷ We mean the crop as a whole. It is true that our Minnesota millers, in the finest grades of flour, like to mix in a small amount of Canadian hard wheat, to get the best results, and a tariff of 45¢ a bushel may prevent this practice. But the gain to the wheat farmer will be slight indeed, for the quantity imported is very small compared with the surplus we must export.

⁸ The above figures are given by Mr. E. N. Dingley in the *American Review of Reviews* of October, 1922. They are used by him to prove his sweeping contention that the Tariff of 1922 will not raise prices, while at the same time it will afford adequate protection to the American producer. Mr. Dingley's inconsistencies are due to the fact that he has no grasp of the difference between *real* and *nominal* protection. The subject is covered by Professor David Friday, in the same magazine for November, 1922, who handles it in the scientific manner of the trained economist.

While the great bulk of agricultural products cannot be given real protection, there are many duties on other things which do afford such protection. Here is where the farmer loses from the policy of "protection all around." He gets the same price for his wheat, corn, cotton, and oats that he would get if there were no tariff; his prices are fixed in the world's market; but he has to pay an increased price when he buys his clothing in our restricted American market, for protection is real on woolen fabrics and the better class of cotton goods, also upon dyes used to color them. What is true of the farmer is also true of those engaged in many of our manufacturing industries such as the makers of harvesting machinery, boots and shoes, automobiles, typewriters, rubber goods, etc. In these lines competition is keen and the prices are as low here as anywhere. In fact, in recent years we have been exporting these things in goodly quantities. On the other hand, there is real protection afforded those who produce chemicals other than essential oils, laces, silks, gloves, glassware, cutlery, toys, monumental work, and chinaware, etc. Broadly speaking, as a result of the principle of applying protection all around, those who are engaged in our industries which produce a surplus for export will have to pay increased prices for these things while getting for their products only the price which permits them to sell abroad.

It is strange indeed that the representatives of the farmers should have agreed to the policy of "protection all around." There is only one explanation; they did not know what they were doing. If Senator Capper is representative of the agricultural interests, this judgment is sound, for Mr. Capper, in his book, *The Agricultural Bloc*, has a chapter on "Protection for Agriculture," in which we find such good Eighteenth Century Mercantilism as this: "Nearly every nation except the United States is in great need of increasing its earnings by a favorable balance of trade. Consequently they will sell everything that can be sold to the United States." Here the essential meaning of trade—exchange—is completely lost sight of. How would Senator Capper's state, Kansas, the greatest wheat growing area of our Union, be injured by other nations selling their goods to us? It would put into their hands the dollar exchange necessary for the purchase of our wheat,

and thereby aid the Kansas farmer. As a Republican Senator in good standing, Mr. Capper uses the current arguments about employing our own labor and business ingenuity while developing our home markets for our own people. Apparently Senator Capper expected higher prices as a result of the tariff, for he writes: "The United States is one of the world's greatest consuming markets and our farm people constitute roughly one-third of our consumers. Any protection, therefore, that tends to conserve the buying power of our agricultural people is conserving the market for industry and commerce." And further, free imports would work "a serious injury to both agriculture and other industries and a more far-reaching effect in repressing our standards of living." Of course, anyone who thinks this way would be an easy mark for the "protection all around" policy. In his article in *Foreign Affairs* for June, 1923, Senator Capper says explicitly: "All that the farmer asks in the way of tariff protection is the same as that which the industrial life of the nation gets." The trouble with this statement lies in the term "industrial life." Our industry is engaged in making such things as automobiles and boots and shoes on the one hand, and, on the other, such things as woolen cloth and chinaware. Now, agriculture gets exactly the same kind of protection as given in the former industries, which is nominal protection, or, in plain English, none at all. Everyone engaged in industries given nominal protection would be benefited by a general reduction of duties all around. Money prices and wages in those industries would remain the same, while a lowering of duties would reduce the prices of articles given real protection. For this reason *our farmers had everything to gain from a policy of free trade all around*, instead of that adopted with the active help of their representatives in Congress. But Senator Capper and his associates never came to grips with the real situation which faces them, the transition from a debtor to a creditor nation, which made a lowering of duties necessary if our farmers were to retain their foreign markets. There is nothing in their reasoning about the tariff to indicate that they possess a scientific understanding of the working of international trade through the mechanism of the foreign exchanges. Nor are they to be criticised for this, because,

if they did possess such knowledge, they would not be truly representative of their constituents. Western farmers who believe that self-government is better than good government should deal gently with their representatives who have not been trained to handle international economic questions in a realistic manner. However, through the ups and downs of price levels, our farmers are learning a great deal about the working of tariffs, just as Europeans have learned a great deal about international payments from the reparations muddle.

During the fall of 1924 our farmers became unduly optimistic because of the sudden and unexpected rise in the price of produce, owing to world-wide shortage. Prices steadily rose till they reached their apex on January 28, 1925, when the following were the closing quotations in Chicago,

	Wheat	Corn	Oats
May	2.05	1.33	.61
July	1.73	1.34	.62

At the present time (November 20, 1925) the closing quotations are,

	Wheat	Corn	Oats
May	1.55	.80	.43
July	1.37	.81	.44

The above represents a very serious decline in prices during the present year, but is what we were led to expect, and we can see no improvement in the immediate future. The relatively high price of wheat is accompanied by the great drawback that the crop in the United States has been estimated by the Department of Agriculture as being over 200 millions of bushels below the average of the last five years. Prices have dropped in spite of the fact that during the past year we loaned considerably more than a billion of dollars and were thus able to maintain a large excess of exports over imports. When we cease making loans and begin to draw our interest from abroad, the European demand will decline rapidly, and American agriculture will face an acute overproduc-

tion. It does not take a great deal of foresight to see that with normal crops in all lands, and with Europe paying back her debts, the position of the American farmer will again become critical, unless there is a change in our tariff policy. In the Middle West the LaFollette candidacy looked formidable in the early summer of 1924, but declined with the sensational rise in the price of farm products. However, if the Republican party maintains its stand on protection, in the interests of a certain section of the manufacturing North and New England, we shall expect to see the progressive movement grow in the West and the Middle West, which will threaten the domination of the Republican party in American politics, the outstanding phenomenon politically with us since the Civil War. The Republican leaders will be very ill-advised to take seriously their tariff plank of 1924, for it shows a complete lack of understanding of the present commercial position of the United States. It ignores completely the change in our trade balance and argues for the tariff as if the Great War had never occurred; it reads as though American industry was still undeveloped and required to be carefully fostered; it repeats all of the old fallacies with a seriousness which reminds us of Horace Greeley.

To sum up, the American farmer has a double grievance against the Fordney-McCumber Tariff. In our present changed financial position it threatens, under normal conditions, to deprive our farmers of profitable foreign markets, since the European countries are under the necessity of creating "favorable" trade balances with us. In the second place the Tariff gives real protection to many manufactured articles while giving only nominal protection to our great agricultural staples, and the farmer loses through the altered price levels.

THE GROWING CONFLICT OF INTEREST

What is true of agriculture is true of all of our manufacturing industries that export and are on the lookout for foreign markets for their surplus production. Their interests and our farmers' are the same. They have now reached the stage where they have everything to gain from freer trade. Their need for foreign busi-

ness has been felt keenly since the war, but they will not be able to develop the foreign markets which they require, so long as a high tariff stands in the way. The financial and economic writers of our leading newspapers for the past two years have been doing their best to explain that American industry is over-developed, that our own markets are not sufficient to take the full capacity production of our great plants. During the past year it has frequently happened that we have read articles stating that the country was in a fairly prosperous condition, but that many industries having good business were employing only 75 or 80 per cent capacity and that they could not now be fully employed, because Europe lacked purchasing power. It is true that in many lines industrial development proceeded with abnormal rapidity during the war and that over-development resulted from the extraordinary demands of the war period. But it is not altogether true to say our potential productive power is not being used fully because of Europe's lack of purchasing ability. When we enact such a tariff measure as that of 1922, with the object of keeping out Europe's goods, it is we ourselves who are preventing our potential customers across the Atlantic from getting the dollar exchange wherewith to purchase our goods in great quantities. For this reason there are many manufacturers in this country who have as great an interest in lower tariffs as our farmers have. When they and the farmers get together, the good old days of high protective duties will be numbered.

It is becoming increasingly difficult in this country to make a reasoned defence of high tariffs. We no longer require to hold out the bait of great profits and higher returns on investment, to attract foreign capital. We need not penalize our people any longer to hasten our industrial development. America is to-day the chief source of supply for international capital. We are now more than capable of financing our own enterprises. The war period and the years immediately following showed what we could do in the way of exporting capital. In the years from 1918 to 1922 inclusive we loaned abroad not less than eight billions of dollars!

On the tariff question there is bound to arise, sooner or later, a clear-cut conflict of interest between agriculture aided by industries

which are reaching out for foreign markets on the one side and those industries which require protection on the other. The former will demand that the duties be lowered or even removed altogether, while the latter will insist on their maintenance. In the end the farmers and other exporters will gain the day for freer trade, because theirs is the true national interest. Furthermore, a gradual change toward downward revision in the tariff duties is not likely to injure such an industry as the textile. If carried out slowly, it might actually benefit it. In spite of the Fordney-McCumber Tariff the industry during the Spring and Summer of 1924 was not in a good condition; most of the mills were running on part time with a consequent large measure of unemployment. It is generally felt that the prices of textiles are too high. Practical woolen men⁹ now feel that it would have been better to have got free wool and kept the *ad valorem* rate down to 35 or 40 per cent rather than have the present schedules with 31 cents a pound on raw wool and 50 per cent *ad valorem* plus the compensating duty on cloth.¹⁰ The so-called "buyer's strike" is nothing more nor less than the determination of people generally to wear out old clothes while prices remain too high. Naturally there has been a great slackening of demand in the western agricultural states. In spite of the tariff, the textile industry has been faced with the problem of lowering its prices, and it has been doing so by lowering production costs. Since the war, it has twice lowered wages by decreeing 10 per cent cuts. From now on, it would

⁹ Our inability to compete with the foreign manufacturer is more pronounced in woolens than it is in either cottons or silks. In fact we have reached the point where we can nearly hold our own in the manufacture of the cheaper cotton cloths, and with the development of cheaper manufacture in the south, we are likely to attain a position of equality. American ingenuity and inventiveness has been shown to good advantage in silk manufacture. This achievement has taken place under protection, and is a good illustration of the successful application of the infant industry argument. It is probable that some branches of our silk industry have reached the stage where the fabrics can be made here and sold in our market as cheaply as they can be imported.

¹⁰ This statement was made to me by a fellow-townsmen after he had discussed the question with other woolen manufacturers in Boston.

seem, that it must lower prices by use of more efficient production methods. When the cotton industry developed in the South, New England cotton men faced the same problem. They met southern competition by better organization, newer plants, and more efficient methods. Had North and South Carolina been foreign countries, New England would have met competition with higher tariffs—to the detriment of the country as a whole.

THE FUTURE OF AMERICAN AGRICULTURE

Much has been said recently about over-production in agriculture and that the real solution is for the farmer to reduce his acreage. So long as we maintain our present policy of high protection against the things which Europe manufactures, that is the only solution.

From 1922 till 1924 the relatively high price of cotton was due to inclement weather and the ravages of boll-weevils, which resulted in a pronounced shortage in the crop. With the good crop of 1925 the price has dropped to around 20 cents per pound. There are many sections of the South that are far from prosperous because of the shortage, and it will take some time for prosperity to return, for with normal crops, the price becomes relatively low.

In 1923 and 1924 the most profitable American crop was corn. Farmers limited their production and for the acreage planted the crop was a good one and the price satisfactory. However, with the crop of 1925 the price has fallen to around 80 cents per bushel. Our farmers were the hardest hit by the post-war depression, and their position is still the worst among our people. Unfortunately, faced with the progressive loss of their European markets, a rapid betterment of their condition is not to be looked for. World shortage such as that of 1924 will not occur frequently. It is to be hoped that, in the face of our tariff, agriculture will be able to maintain its present position. That will require crop limitations, a difficult matter to regulate among men of so individualistic a temperament as our farmers.

There are those among us who look forward to such reductions in the size of American crops, combined with growth of popula-

tion, which will lead to an actual shortage in our agricultural production. If that is true, then it will be possible in ten or fifteen years from now for our farmers to derive real protection from the tariff. But, clearly, the Emergency Tariff of 1921 and the Act of 1922 were meant to remedy an immediate situation. As a matter of judgment, it is doubtful if American grain production will decline in the next ten or fifteen years to such a point that the supply will be less than our demand, unless the scarcity is deliberately organized. Rising prices will produce increased supplies if the free action of normal economic motives is not checked.

If an agricultural monopoly could be created in this country, it would be possible for our farmers to reap full advantage from the protective duties. If a gigantic farm association could be formed to market all of our farm products, real gain could be derived from the tariff. Such an association would set aside enough produce to meet our home requirements, which would then be sold at world prices plus the duty, while the exportable surplus would be disposed of in the international market at the current prices. The formation of such a price fixing association would be an exceedingly difficult matter, for it runs counter to the farmer's way of looking at things. Co-operation in such matters is something new and strange to him. Not only that, but the formation of such a trust would arouse bitter resentment among our city population. The abuse heaped upon the promoters of the oil and steel trusts would be considered eulogistic when applied to those who had engineered a monopoly in the food necessities of life. Very likely public opinion would force the Attorney General to proceed to the dissolution of the association under the anti-trust laws. Undoubtedly, there would be clamor from our industrial centres for the repeal of duties on food products. On the other hand, our farmers would demand exemption from the operation of the anti-trust laws. It is safe to say that our political leaders are hoping earnestly that there will not be found among the farmers sufficient organizing ability to make the tariff of real advantage to our agricultural interests. We cannot conceive of anything which would so thoroughly discredit the whole policy of protection as the creation of a price regulating food monopoly that

would discriminate against our own people and in favor of the foreigner. On the other hand, without such a monopoly protection to the grain growers of this country will remain a fraud and a delusion.

WHAT A GOOD HOME MARKET REALLY IS

Ever since the days of Carey American protectionists have stressed the home market argument in their desire to assure our farmers that they profited by protection, and it was, therefore, natural during the agricultural distress of recent years that this argument should be emphasized. The Republican platform of 1924 went so far as to declare, "The tariff protection to our industry works for increased consumption of domestic agricultural products by an employed population, instead of one unable to purchase the necessities of life. Without the strict maintenance of the tariff principle our farmers will need always to compete with cheap lands and cheap labor abroad, and with lower standards of living." This statement is almost classic in its fallacious brevity. It starts with the "home market fallacy," supports it with the "employment fallacy," and for good measure throws in the illusion that our farmers as a whole get "real" protection. As we have already seen, the fundamental error of this way of thinking lies in the supposition that a protective tariff increases the productivity of a country, and thereby increases the national income. Those who believe this are in the last analysis driven back upon the "infant industry argument," and it is then incumbent upon them to show that the goods which are excluded by the duties can be made at home more cheaply than they can be imported. Here then is the real meaning of a good home market; it is one that rests upon high productive efficiency. There is such a thing as a good home market, but after a country is so highly industrialized as the United States is now, it cannot be bettered by protective duties; for, looking behind the mechanism of money, and grasping the nature of the "real market"—that is, the real exchange—food for manufactures, it is obvious that the farmer loses unless the things he buys are made here as cheaply as abroad, in

which case there is no need for protection. Whether the market is home or foreign is immaterial to the farmer who is struggling to get out of the slough of financial despond. If the foreigner will give him more goods in exchange for his produce than the home manufacturer, it is to his advantage to deal with the foreigner—a common-sense conclusion. Furthermore, if the home industrialists want our farmer's produce they should be required to give him as much in exchange as he could get abroad. This is a simple matter of economic justice which is thwarted by the protective tariff. A good home market, therefore, means nothing more nor less than good terms of exchange for our farmers here within the United States. Put in the language of everyday life it means increased domestic demand for farm produce, brought about by high industrial wages with full employment, along with decreased costs for the things the farmer buys. High industrial wages combined with low costs depend upon high industrial efficiency. A good example of this is the American automobile industry which provides an excellent home market for the American farmer. If railroad reorganization could bring about lower rates without reducing wages, the home market would be greatly improved. This would also result from the development of hydro-electric power aiding industry by making power cheap and abundant, from the stabilization of the value of money, from the moderation of the business cycle, from co-operative marketing which will shorten the channels between producer and consumer. Those who wish the farmers well must aid in the development of the home market along these sound economic lines; the home market is important; it can be improved, but not by the quackery of a protective tariff.

THE UNSOUND PRINCIPLE OF THE FORDNEY-MCCUMBER TARIFF

There has always been considerable feeling in this country that the duties levied upon foreign products should not be higher than is necessary to equalize the costs of production, the object being

to prevent the growth of domestic monopolies which would charge exorbitant prices. The argument that the tariff should be so adjusted as to "equalize the cost of production" has long been in high favor with Republican politicians, but it was not until 1922 that they formally announced it as their guiding principle in tariff legislation. The idea is a later development of the wages and employment arguments and at bottom is as fundamentally fallacious. To the average man, however, the principle seems eminently fair. The duty should be high enough to insure the American standard of living to those engaged in the industry and to provide for the American producer a good market at home. But such a policy, if consistently carried out, means the destruction of all the advantages from international trade. If carried to its logical extreme, it means the end of the trade altogether. Furthermore, it means that we should give the highest protection to those industries in which our disadvantage is the greatest. When faced with this conclusion, Senator Aldrich did not hesitate in 1909 to declare that he would be willing to give rates as high as 500 per cent *ad valorem*; in 1922 Senator Stanfield went further, asserting that, if necessary, we should make the duties as high as 5000 per cent. The justification for this economic idiocy is that we cannot make the duties too high, seeing that we keep our own workingmen employed and that the money paid to them remains in the country, giving them purchasing power to be used in buying the products of our other industries. Of course such an argument can be used only by men who have not the slightest understanding of the real nature of trade! If we equalize the cost of production, then the American producer will have our market to himself. Our imports will cease, and in the end our exports also. If the duties are made high enough, there is really nothing that we could not produce in our own country, but in many cases the costs would rise to such heights as to destroy entirely the demand of all except the very wealthiest. No one would think of applying the argument to the states of our Federal Union; no one would contend that Massachusetts should raise oranges, though this could be done in hot houses if costs were equalized! Nor should Florida manu-

facture shoes on this absurd principle. Florida does well to get her shoes from Massachusetts in exchange for oranges; such is the teaching of scientific economics,—and common-sense.

The majority of those who use the argument that tariff duties should "equalize the cost of production" probably mean nothing more than this: the duties should be so adjusted that the American producer is enabled to retain our market and furnish the goods as cheaply as American labor costs permit; the duties should not be so high as to foster a domestic monopoly which would levy an additional burden on American consumers. Stated in this form the principle simply amounts to this: the trust movement in our industry should not be stimulated by our tariff.

But it is ridiculous to characterize the principle, even when so stated, as "scientific." Economic science teaches us that we shall promote our own prosperity by getting all the advantage we can derive from international trade and that it is grossly unscientific to destroy such advantage by tariffs. To call a tariff "protective" is to give its purpose a sweet motherly ring. Our farmers and other exporters would do well to call it a "destructive" tariff, and thus familiarize the public with that side of its nature. The great mass of our people understand how a tariff can be protective; in our changed economic position it is high time that they learn how it can be destructive.

ADDENDA

Note on the Report of the President's Agricultural Commission.

In dealing with our farmers' foreign market problem, the economic theory relied upon by the commission is widely at variance with that expounded in the preceding chapters. As the Commission was appointed by a President elected upon a strongly protectionist platform, it was a foregone conclusion that nothing in its report would be hostile to the protective policy. Furthermore, the inclusion in its membership of representatives of the California fruit growers and the western sheep raisers meant that the protectionist case would be ably argued by those who got "real" protection. The result is that the report is based upon the principle that the farmer should get adequate protection, and then be tolerant of protection to the manufacturing interests of the country.

It is nothing new for the farmers of the North and West to espouse high tariffs. In the eighties and nineties they were carried away with the home market argument. But to-day, after three years of unusually high protection, the farmer realizes that something more is needed, and so the farmer is out for protection that protects him directly. He understands by this time that "nominal" protection is not enough, that the tariff brings results only when the home price is controlled by the cost of importing a necessary part of the supply. The Commission, therefore, proposes to reorganize our agriculture with a view toward reducing the size of those crops which we now produce in excess of American requirements, and replacing them with those which now fall below our needs. Their object is to bring about the complete disappearance of export surpluses so that "real" protection may be given to the whole range of agricultural production.

The economic theory of this new agrarian protectionism is undoubtedly much better than the old, but the theory will be an extremely difficult one to carry into practice for the reasons stated on pp. 75 and 76. There can be no immediate help to the American farmer from a policy which requires the extinction of export surpluses. Who is to control domestic production? Unless production is controlled it will exceed the requirements of our American market. When farming is as highly organized as the United States steel industry; when a central board of farm directors have production and prices within their control, then, and not till then, will the Commission's theory be put into practice. The plan of the Commission requires the execution of the most difficult feat of business organization ever attempted.

The Commission argues that the farmer must accept low pay so long as his products must be sold abroad in competition with those of low standard countries. We dealt with this argument in a general way on pp. 28 and 29. The Commission overlooks the fact that low standard countries are countries of low efficiency. Where is wheat produced more cheaply than in the United States? In India or in Russia where standards are extremely low? No. Their export is small and there would not be any provided the peasant got enough to eat. It is our neighbor, Canada, that is our greatest competitor. It is the Canadian farmer, very often American born and American trained, that for the present has the advantage of newer and better soils, who is in a more favorable position than our producers. In addition to these natural advantages the Canadian farmer has the benefit of a lower tariff system. If we abandon

the European market, the position of the Canadian farmer will be still further improved, and we shall see still greater emigration of our western farmers across the border.

The ideal of the Commission is that of the self-sustaining nation. We are not to import foreign manufactures, nor are we to export farm products. Logically this position has the merit of being sound. But for reasons which we trust that we have made clear, it is not a policy that will commend itself to the whole country. Such a policy, by destroying the economies of foreign trade, will reduce the national income and therewith the standard of living of the American people as a whole. From the farmer's viewpoint it has at least the merit of equalizing conditions on the farm and in the industrial centre. The farmer now pays more than is equitable for many of the things he needs; if this policy is carried out the industrial worker will pay more for his food; there will be less income for all, but what there is will be more evenly distributed. Wages and prices will be kept on a higher level, but the real national income of goods and services will be reduced, granting the practicality of the plan.

There is nothing in the report of the Commission to change our opinions and conclusions reached above. In fact, those chapters, outlined before their report was made, are as they stand a complete answer to their contentions. We reiterate, what our farmers need is not protection but freedom of trade. That policy is not only an immediate necessity for them, but in the end the only sound policy for a country as economically advanced as we now are. For the future freer trade will be required, if the American standard of living is to be maintained and improved.

NOTE ON FARM RELIEF LEGISLATION

As this book is going through the press there is evidence that the representatives of the farmer sections are beginning to realize that the protection which they have hitherto received is a sham and a delusion, and that they are now out to get "protection that protects." The original Corn Belt bill proposed a Federal appropriation to aid in marketing surplus crops, together with an "equalization fee" to cover the losses involved in dumping surpluses abroad at reduced prices. This bill was strongly opposed by President Coolidge and his advisers on the ground that it required price-fixing, which they regard as economically unsound. The views of the Administration have been embodied in the Tincher bill, which provides for a Federal

Farm Advisory Council, a Farmer's Marketing Commission, and a loan fund of \$100,000,000. This bill, however, does not meet the demands of the representatives of the corn belt and the cotton states, who have lined up behind the Haugen bill, which provides for a Federal Farm Board which is to fix from time to time the domestic price of farm products at the figure prevailing "at the principal export market of the principal competing foreign country," plus the American customs duty and the cost of transportation from the nearest foreign point of competition. The President is directed to declare an embargo on foreign products whenever they are sold in the United States at a price less than that fixed by the Board. The bill carries appropriations aggregating \$375,000,000, to be "administered by the Board and used as a revolving fund."

The Haugen bill has been severely attacked by eastern representatives and by eastern newspapers for being radical and unsound economic legislation, and yet it is thoroughly consistent with the *real* protection given to the manufacturing interests of the East. Senator Norris of Nebraska is only one of many in the agricultural states who now see the light: "Either fix the tariff so that all classes of people shall share in its benefits, as well as assume its responsibilities, or take away its benefits entirely. If the farmer must live under an artificial assessment by which other classes of people are lifted up, then he has a right to demand that the same assessment should elevate him, and failing in this, that everything artificial to bolster the prosperity of protected interests should be taken away. Either the farmer must be lifted up on the same plane as the manufacturer or the manufacturer must be put down upon the same plane as the farmer."¹¹ For reasons stated in the text we are strongly in favor of the latter course. It is the economically sound policy. New England editors would do well, however, to remember this when they attack "unsound economic legislation" like the Haugen bill.

¹¹ *Current History*, April, 1926, p. 13.

CHAPTER IV

American Dependence upon Foreign Trade

WE Americans like to think of ourselves as an economically self-sufficient nation. It is true that our Union extends over a continental area which, in a very wide range of natural resources, is the richest in the world, and it is also true that, if necessity required it, we could get along fairly well on the resources within our borders. Given sufficient time, we could reorganize our industry and commerce, so that we should have actual economic isolation. But most certainly that is not our trade position to-day. During the last fiscal year (ending June 30, 1925) we had a foreign trade of over eight and one-half billion dollars, and into that huge trade went very many things that we should have great difficulty producing within this country, products of the tropical regions that would become very costly were we to produce them here, after the manner of Adam Smith's Scotchman raising French grapes in hot houses at seventeen times the normal cost. If we were to make the attempt, we should find in many cases that famous ratio not high enough. Still, we grant there is probably nothing that we could not raise or make provided we were willing to pay the price for our self-sufficiency. However, the plain truth is—whatever Congress may think, since they made *equalizing the costs of production* the principle of the Tariff Act of 1922—the American people have no intention of misusing their productive energies to the extent of producing here things which we have always imported from the tropical regions. Once this is admitted we realize that our much vaunted self-sufficiency is only relatively true. What our average citizen probably has in mind is the fact that we are the least dependent nation, and could in time of war get along somehow on the resources of our own land. Perhaps he has nothing more in mind than the highly important fact that we have more than an

adequate food supply, and in this respect, compared with the leading European countries, we are relatively independent.

The ordinary American would be positively surprised at the extent of our foreign trade to-day. If he were to take the trouble to look over the *Monthly Summary of Foreign Commerce of the United States*,¹ the volume and the variety of that trade would be a revelation to him. Perhaps, if some of our Senators were to look in at the Government Printing Office now and then, they would have less to say of isolation. Is not the Ocean the great international highway, and does not our commerce give us a lively interest in it? Say what we like about separating economic and political action, the thing is impossible at the present time. Our commerce makes us interested in the "Freedom of the Seas," but from its very nature that is an international, political question, and its solution will require concerted action. Whatever our isolationists think, the American people will not be content to sit aside, while other nations formulate the law on that important question. It is a flouting of all recent experience to say that we are not politically interested in matters that involve our economic interests. When we have over eight billion dollars' worth of annual commerce on the high seas, it is folly for anyone to suppose that we shall isolate ourselves and allow the other nations to lay down the law of the seas.

OUR NEED OF IMPORTS

To an extent little appreciated by most of our people, our manufacturers are dependent upon the outside world for necessary materials. Consider the great tire and rubber industry of this country, whose rapid development along with the automobile industry is one of the outstanding industrial achievements of our time. The rubber industry is completely dependent upon the Malay Archipelago and Brazil. One of our largest companies has its own plantation in Sumatra, but by far the greatest amount

¹ The statistics given in this chapter are taken from the *Monthly Summary* for June, 1923, 1924, 1925. The June issue gives the totals for the fiscal year which ends June 30.

of the rubber latex that our factories use comes from the Straits Settlement and the Malay States and is obtained through the Liverpool market.² Here is a great industry whose raw material comes from the other side of the earth! Our tinsplate manufacturers import their tin from Bolivia and the Malay States. The manganese for our steel mills comes from South America; the nickel that is so widely used as an alloy and for plating purposes comes from Canada and New Caledonia. For our tanneries Argentina sends us quebracho. The raw product for our silk factories comes from China and Japan. We get the finest grades of clothing wools from Australia, and we also import large quantities of the lower grades from Argentina and New Zealand. From Belgium we import flax for the making of the finer qualities of twine, canvas, linens, and laces. For the heavy binder twine that our farmers use in harvesting time we are dependent upon the sisal of Yucatan. The cotton for the fabrics and cords of automobile tires comes from Egypt, as our southern fibre is not so suitable for this purpose. Of the finer metals, platinum comes from Colombia and vanadium from Peru. From South America we also get hides and skins for our leather industry. We could go on multiplying instances, but enough have been given to show the extent to which our manufacturers are dependent on the outside world. During the fiscal year (ending June 30, 1923) we imported crude materials for use in manufacturing to the amount of \$1,475,941,029 and partially manufactured goods for further use in manufacturing having a value of \$711,358,726. For the fiscal year 1923-24 the figures were \$1,421,333,775 and \$437,272,475 respectively.

There are a great number of food products that we import, some of which we should dislike very much to try to get along without. Among these may be mentioned: coffee from Brazil; tea from China, Ceylon and Japan; cocoa from Venezuela; sugar and molasses from Cuba; rice from the Far East; spices from the East Indies; fruits and nuts from the tropical regions; cocoanut oil and other vegetable oils from the Dutch East Indies and the

² This fact became widely advertised last summer through the sudden and remarkable rise in the price of crude rubber, and we have since heard a great deal about British monopolistic control.

isles of the Pacific; meat products from South America. During the fiscal year 1922-23 the total value of foodstuffs, in crude or manufactured condition, amounted to \$859,109,857, and during the fiscal year 1923-24 this sum came to \$915,21,730, and in 1924-25 to \$903,130,000.

However, when we think of our dependence on foreign trade, it is not imports that we have in mind so much as exports, the necessity for foreign markets in which to sell our surpluses. We have long felt this need with regard to agriculture, but in recent years with the remarkable development in our great factories of the system of mass production we have begun to feel the same need of foreign markets for our surplus manufactures. But trade, as we have repeatedly pointed out, is a two-sided thing, and our interest in exports should give us an *equal* interest in imports. From the national standpoint, we are interested not only in selling, that is, exporting, but also in receiving payment, which means importing. Those who urge economic self-sufficiency should ask themselves in all seriousness just how far they wish to curtail the development of American agriculture and the growth of those industries which are tending to develop beyond the needs of the American market. In short, how far are they willing to go, in discouraging production along those lines in which we have the greatest natural advantage? In tariff discussions this highly important question affecting the prosperity of this country is completely ignored, and nothing could better illustrate the widespread ignorance of the most fundamental economic principles. However, this is a question affecting the economic well-being of so many people within this country that it is sure to force itself to the front in political discussion.

OUR NEED OF FOREIGN MARKETS

In the last century our winning of the West, in spite of rapidly increasing population in our eastern states, meant the growth of large agricultural surpluses which found a ready market in the rapidly growing industrial centers of Europe. During the war period this development reached its highest point. The period

from 1914 to 1920 was one of unusual prosperity for American agriculture. The high prices prevailing during those years acted as a bounty, stimulating greater production, especially in the wheat belt. American agriculture during those years became increasingly dependent upon European markets. This should have given our politicians a very keen interest in European conditions. Our Republican leaders, instead of cherishing isolationist illusions, if they wished to hold the western states true to their party, should have used the influence of this country to strengthen those policies working for the restoration of Europe to its former position as the world's greatest industrial centre, and so stimulate throughout Europe a demand for food and raw materials, which would compensate for the certain decline in the abnormal war-time demand of our associates in the war. The latter decline took place all right, but nothing was done with regard to stimulating in the rest of Europe a compensating demand. It is true that the foreign demand at a subnormal price for our agricultural products during the last two years has been higher than in the year of 1913, but to argue, as Republican leaders are doing, that the farmer, therefore, has no real basis for complaint, is to ignore completely the subsidizing effect of the war period with its high guaranteed prices. If a manufacturing interest had been given six or seven years of high protection during which it flourished, Republican Senators would not argue that their responsibility ended because the industry had with a low price a bigger market to-day than ten years ago! Let us make a concrete comparison. The war stimulated the dye industry of this country as much as it did agriculture. The tariff act of 1922 protected the dye industry by extremely high rates which were made more effective by the provision for American valuation of imported dyes. Honesty compels us, however, to say that we think Republican failure to safeguard the interests of our farmers was due chiefly to ignorance. They gave large measure of protection to agriculture which in this country, so far as the great staple crops are affected, is purely nominal protection without influence on their price.

Five or six years ago, in the immediate post-war reaction, it was fashionable for our isolationists to pooh-pooh the idea of our de-

pendence upon foreign trade, to speak of it as being only seven or eight per cent of our total trade, and to suggest that, if need be, we could get along without it. In time, possibly, we could. It is quite conceivable that a system of tariff duties on the principle of equalizing the cost of production, which should gradually become prohibitive, so that by the end of thirty or forty years all foreign trade would come to a stop, could be put into effect, and the necessary business re-adjustments be made slowly enough for us to get along fairly well. We might be able to produce our rubber latex at about fifty times the price we now pay for it; our people could learn to do without tea and coffee or we might be able to produce them at twenty-five times their present cost, and so on. Turning now to the export side, let us see what would happen without foreign trade. We should have to cease growing surpluses of farm products, agriculture would become a declining industry, the prices of farm land would fall, and farm labor to a considerable extent would have to find other employment. Those manufacturers who are promoting large scale mass production of cheap commodities would have to curtail their activities. We might be able to avoid an industrial crisis by spreading the period of transition over thirty or forty years. It would be on the whole a period of industrial stagnation. After the transition was effected, this great free-trade union of ours would probably enter upon a period relatively prosperous. In order to effect the change with the least disturbance, we have allowed a liberal period of time. Suppose, however, we were to take those seriously who talk of our independence. Let us imagine that by some strange freak of nature, pleasing to Senator Hiram Johnson, the waters of the flood were again to cover the earth, and we were left a nation of Noahs in the ark of the good old U. S. A. We should have real isolation, and the political independence and freedom of action that goes with it. But we should also have the greatest industrial depression which this country ever passed through! Compared with what we should then face the panic of '93 would be child's play. Just picture one-half of the cotton crops rotting on the plantations, one-fourth of the wheat crop for which there is no demand, one-third of the tobacco crop going to waste, two-thirds of our copper for which

there is no market, and you get some idea of what nonsense is talked in the name of independence and isolation.

We are free to admit that the above considerations are fantastical. No one has ever proposed, in plain language, that we should do away with our foreign trade. But its destruction is implied in such an expression as "a tariff to equalize the costs of production," for if the costs of production of the foreign article are to be raised to the same point as our own, we shall of course use our own product, and this will bring trade to an end. Furthermore, such phrases as *economic self-sufficiency*, *industrial independence*, and the like, do not seem fantastical until we picture to ourselves the conditions which they presuppose, as in the above caricature.

So far from wishing to put an end to our foreign trade, most of our men in public life wish to see it grow, only, unfortunately, they talk too often like economic illiterates. They wish us to gain foreign markets, to expand our exports, but they hinder this development by absurdly high tariffs, apparently never connecting in their thought imports with exports. We should all laugh at the business man who proposed to become prosperous by giving his goods away but the writer once heard a distinguished Senator declare that we could capture the markets of the world, if we would only continue to build our prosperity on the sound and true Republican principle of an effective protective tariff!!—and the Main Street audience, so far from laughing, actually applauded vigorously.

FINANCIAL INTERDEPENDENCE

Toward the close of the Nineteenth Century a new phenomenon began to appear in the world of affairs. That was the interdependence of international finance. With us this was first clearly seen in the crisis of 1873, whose prime cause was the excessive railroad building after the Civil War. Entirely too large a part of our capital went into railroad expansion in the west, where, from the nature of the conditions, a long time would have to elapse before the normal return on investment could be earned. But the panic in September was hastened and its severity increased by the

course of events in Europe. In May, 1873, a sharp financial crisis occurred on the Vienna Bourse, due chiefly to the economic results of the Franco-German War: the payment of the indemnity by the French in so short a time as to cause industrial depression in Central Europe. "The Vienna panic stopped the negotiation in Europe of bonds of new railroads and made difficult the sale of those of companies of established credit. The glut of American railway bonds in Europe forced the New York bankers to carry the new railroads which they backed by straining their own individual credit. This became increasingly difficult."³ The financial resources of this country in the fall of 1873 were not adequate to the task of financing the railway programme which with the aid of European capital we had begun. When the financiers of England, Germany, and Holland, taking warning from the Vienna crisis, began to put their financial houses in order, the strain became too great for Wall Street, and our whole financial structure cracked on the famous Black Friday. This situation was very nearly re-created in 1890. Argentina was the happy hunting ground for the European financiers of the decade of the eighties. To make matters worse, the speculative mania was accompanied by the issue of vast quantities of irredeemable paper currency. When the collapse came, it brought down Baring Brothers, one of the greatest international banking houses of England, which all but precipitated a general financial panic in Europe. American financial conditions were severely disturbed, and industrial depression moved on to a period of critical severity. The events of 1907 are still vivid in the minds of living men. The situation which developed in Wall Street in October of that year threatened the security of every financial centre throughout the world. The demand of our New York banks for gold was so great that it sent the Bank of England rate to 7 per cent. The gold which our bankers required came through London, from twenty-four countries, including the British Dominions.⁴ In coming to our help the financiers of London and the other monetary centres were look-

³ Rhodes, *History of the United States*, vol. VII, p. 41.

⁴ See F. W. Hirst, *The Stock Exchange*. (Home University Library.)
p. 82.

ing out for their own best interests, for the repercussions of our panic were felt in every market of the world, and the quicker the crisis was passed here the better it was for them.

* The disrupting conditions of the war period were such that we are apt to lose sight of the elementary fact of financial interdependence. But who can doubt that in a few years those conditions will again be restored? It will come about as a natural, normal development, and indeed it must be brought about if world trade and prosperity are to be restored. We hear a great deal about bringing back the normal pre-war conditions, but few people consider the extent of international co-operation which they imply, for let us not forget, *before the war we had actual economic internationalism*, and we shall have it again when the present generation of politicians have had their day and ceased to be. The situation which existed before the war was well summed up in a French financial publication: "The very rapid development of industry has given rise to the active intervention therein of finance, which has become its *nervous rerum*, and has come to play a dominating rôle. Under the influence of finance industry is beginning to lose its exclusively national character and to take on a character more and more international. The animosity of rival nationalities seems to be in process of attenuation as the result of this increasing international solidarity. This solidarity was manifested in a striking fashion in the last industrial and monetary crisis (1907 and 1908). This crisis, which appeared in its most serious form in the United States and Germany, far from being of any profit to rival nations, has been injurious to them. The nations competing with America and Germany, such as England and France, have suffered only less than the countries affected. It must not be forgotten that, quite apart from the financial interests involved directly or indirectly in the industry of other countries, every producing country is at one and the same time, as well as being a competitor and a rival, a client and a market. Financial and commercial solidarity is increasing every day at the expense of commercial and industrial competition." ⁵ Before the war, finan-

⁵ *L'Information*, August 22, 1909.

cial solidarity was an economic fact, which can be studied most clearly in times of acute crisis. It was the banking side of the world economic situation which embraced industry and commerce on an international scale.

Without sound economic conditions throughout the world we cannot have the measure of prosperity which the resources of this great country would give us when utilized wisely. In many respects those resources are beyond our own needs, but they are far from being beyond the world's needs, and there are other countries who have things that we could use and who would be willing to exchange with us if only tariff barriers did not prevent such trading.

Among American business men the need for foreign trade is now very generally recognized. American economic development has now reached the world stage, and we shall, therefore, have to play our part in world affairs. There are those who think that our economic development will drive us inevitably into an imperialistic career, just as it has done with the highly industrialized nations of Europe. It is contended that our need for markets, for raw materials, and the desire of our capitalists for more profitable fields for investment, all these things under the capitalistic régime will force upon us sooner or later an imperialistic course. Our future, we are told, lies in the countries of the Pacific, in Latin America and the far east of Asia. The popular defense of this policy will be the same as that made in Europe—economic necessity and a due regard for national welfare. Such being the prospect, we as a people shall do well to examine critically the policy of imperialism, and weigh carefully its appeal on the basis of national advantage.

CHAPTER V

The Economics of Imperialism

As a people we Americans are not yet familiar with the policy of economic imperialism. It is true that the Spanish-American War brought the matter to the attention of our people, but our seizure of territories like Porto Rico and the Philippines was almost accidental; in fact we found those territories on our hands before we knew what to do with them. Europeans thought we had embarked upon an imperialistic course, but, if ever such a course were taken in a fit of absence of mind it was surely our acquisition of the former Spanish possessions. Our determination to free Cuba from Spanish misrule led to war, in the course of which our military and naval operations took us far afield, and when peace came we found ourselves with backward peoples on our hands, notably the Filipinos. That our policy was not one of premeditated imperialism is easily established. No prominent American publicist or statesman ever before the war deliberately outlined such a policy. Not only that, but American finance was in no hurry to develop the industry of the newly acquired islands. It is, therefore, true to say that Americans generally are not familiar with the policy of modern, economic imperialism. Our more recent policy with regard to Latin America has not been closely watched by our people. Europeans speak of American imperialism in the Caribbean and Central America, and, naturally enough, our actions there seem to them the first steps in the direction of that policy. But, so far, Americans as a whole have been indifferent with regard to our government's treatment of the smaller and weaker Latin states. We think of imperialism as political domination, and naturally and instinctively believe that our government has no such purpose, that what is done is of a temporary nature and for the good of the

governed. We do not as yet see in such a policy a too intimate connection between government and high finance. In short the economic basis of modern imperialism is not generally understood among us.¹ This explains why we Americans were so puzzled in the early days of the Great War when informed Europeans told us that its causes were largely economic. It also explains why we had so much difficulty following the course of European diplomacy in the years immediately preceding the conflict. That in 1911 Great Britain and France should be ready to jump at Germany's throat because a German gunboat anchored off the Moroccan Coast seemed to Americans to say the least bewildering. That a liberal statesman should talk as Mr. Lloyd George talked at the Mansion House was a thing beyond our comprehension. That the Pan-Germans should lash themselves into a white heat at the French expedition to Fez seemed to us ridiculous. This was the way thoughtful Americans felt, while most of our people paid no attention to the matter at all; they may have glanced at the headlines in the papers for a moment, and then turned to the sporting page to follow the far more interesting fortunes of the Athletics or Giants as they struggled for baseball supremacy. It is little wonder then that on the outbreak of the Great War not one American in a thousand had ever heard of the Agadir Affair, or understood why the Crisis of 1911 arising out of a conflict of imperial interests and ambitions should have been so ominous. Lastly, the Paris Conference disappointed and disgusted us because our impatience was not restrained by a knowledge of the conflicting imperial interests of the Great Powers, and the devious ways of the diplomacy which looked after those interests. If we would understand Europe, if we would understand the most troublesome movement in Modern European History, we must get to the bottom of this question of economic imperialism. We propose now to explain and criticise the beliefs that animate the policy of modern imperialism, because the true remedy for the situation which it creates is popular education.

¹ For an indictment of American imperialism, see "Imperialistic America": Samuel Guy Inman, the *Atlantic Monthly*, July, 1924. In reply see, "Is America Imperialistic?": Sumner Wells, in the September *Atlantic*.

REASONS FOR IMPERIALISM

If you were to ask several Europeans why their respective countries have seized and held certain African or Asiatic territories, you would be pretty sure to get a variety of answers. The temperament of each would affect his answer and the business or profession to which he belonged would mold his belief and modify his opinion. The military man will tell you that the seizure was necessary for strategic reasons; the Christian Minister will tell you that his country is doing its part in carrying the "white man's burden"; the honest merchant will tell you that it is a matter of colonization and trade. If in addition your military man, minister, or merchant is a hundred per cent patriot, he will also inform you that an extensive and growing empire reflects glory upon his own country, and adds to its prestige. Very often the same person will give you all of these reasons which may be classed under the four heads, military, moral, economic, and sentimental.

THE WHITE MAN'S BURDEN

We Americans are thoroughly familiar with the idea of the white man's superiority. South of the Mason and Dixon Line this is better understood than anywhere else in the world, and on the Pacific Coast in recent years this truth has become almost as clearly recognized. The white race is to-day God's chosen people; the white man says so, and the white man knows better than anyone else, so it must be true. And just as the well bred, high spirited Southern aristocrat in the days "befo' the war" flattered himself with the idea that for his slaves the condition of bondage was better than the condition of freedom, so too to-day the European imperialist will tell you that his country's conquest of Asiatic or African territory is of great advantage to the natives. And just as there were many Southern gentlemen who were sincerely solicitous for the welfare of their slaves, so too in Europe to-day there are many imperialists who are honest in their belief that their country has a mission to fulfil in Africa or Asia. Their assertions are, however, the butt of ridicule on the part of Euro-

pean radicals who, conversant with the selfish purposes which initiated imperialistic policies and the cruelties which heartless avarice from time to time inflicted upon the natives, have no illusion about the halo of morality which innocent or calculating imperialists point to. Their disgust with the white man's buncombe excludes from their minds all consideration of the white man's burden. But we should be making a big mistake to dismiss moral ideas as of no account, for they have had real influence on the doctrine and policy of imperialism.

However, we should understand clearly the way in which moral ideas have influenced the growth of empires. No European country ever conquered a backward people for the purpose of civilizing and bestowing the benefits of its higher culture upon them. In every European State imperialist ventures have been the work of a very small minority, but once a conquest has been made the great apathetic majority have been won over to the retention of the territory by the argument that they owe it to the natives to give them the blessings of European civilization; Christianity, education, law and order. To carry light and learning to those that sit in darkness is a noble purpose. We Americans can understand this, for it was precisely this sort of appeal which won for the Republican Party in the election of 1900 its mandate to retain the Philippine Islands until the Filipinos were completely fit for self-government. And, do we not to-day point with pride to the schoolhouses which we have erected all over the islands? Just as military reasons took us into the Philippines, so too they have caused the European States to extend their empires. Though the arguments in the first place may have been military or economic, yet when the territory is acquired, the most telling argument against withdrawing or abandoning control is the moral one, the duty to improve the condition of the poor backward people mercifully placed in the white man's care. We made the observation in discussing tariffs that most people want to feel that they are acting straight, and that is why the businessman who profits under protection wants to feel that the country as a whole has benefited. Imperialism is no exception to the rule that men usually desire an ethical justification for their actions. Without the moral appeal

the opposition to imperialist policies would have been more formidable. It was not from altruistic motives that Great Britain went into Egypt, or France into Tunis, but once firmly planted there the good of the Egyptians or the Tunisians has been given as the reason why the British and French did not evacuate those countries according to their original promises. The white man's burden is the reason most frequently given for the retention of conquered territory, but what is the cause of the conquest in the first place? What has been the driving power back of the policy of imperialism?

THE ECONOMIC URGE

Our modern world is dominated by economic beliefs and desires. The imperialism so rampant in the European States before the War was animated by economic purposes. By the last quarter of the Nineteenth Century the great nations of Europe had been transformed into highly industrialized states. This was the work of the Industrial Revolution which widened markets enormously, and produced an extremely rapid growth of population, with concentration of great masses in cities and towns. In the course of the Century the old local economy gave place to a world economy; the food to nourish the ever increasing millions and the raw materials on which they worked came from over seas. What then could be more natural than the desire of statesmen to control the sources of food and raw materials so necessary for the prosperity and contentment of their peoples? But the statesmen were not the first to think of these things. Long before them the merchants and manufacturers schooled in the virtue of buying in the cheapest and selling in the dearest markets began to think of the control of undeveloped lands from which they could secure food and raw materials on the easiest terms and to whom they could sell their manufactured wares to the best advantages. This had been tried upon a small scale by various companies and individuals even before the Nineteenth Century began, as witness the activities of the British East India Company, the Plymouth and the Virginia Companies in their early days. However, these

were private enterprises conducted like other business ventures with the deliberate purpose of making the most profit obtainable for those engaged in the enterprise. In the case of Africa and to a less extent of Asia it is true that the activities of these companies led to a certain amount of penetration and frequently the natives were subjugated and ruled by the agents of the company or corporation, but the undertaking was nevertheless essentially a private affair conducted for profit. It was, too, inevitable that friction should arise between the representatives of the companies or individual traders and the native governments, and these difficulties sometimes led to intervention on the part of European Governments, but in so doing the European States were merely exercising their time-honored right of protecting their own nationals in foreign parts. The attitude of the European States to this older imperialism is like our attitude towards American activities in Mexico at the present time. We regard these activities as essentially private affairs, though our government has had to insist from time to time upon a certain amount of respect for American lives and property in Mexico. But in the last quarter of the Nineteenth Century this attitude on the part of the European Governments gave way to the current idea that the power of the European State should be used deliberately and if need be ruthlessly, for the furtherance of the economic interests of its subjects. And, this policy was but the logical outcome of the economic beliefs so widespread and the conditions out of which those beliefs grew. When we survey the European nations at the end of the Nineteenth Century, with their growing populations crowded upon small areas and their dependence upon distant parts for food and raw materials, we realize the force of the idea so sententiously put by Joseph Chamberlain, "Commerce is the greatest of all political interests."

THE SUPPOSED GAINS FROM IMPERIALISM

Like the appeal of protection, the economic argument for imperialism is that its advantages are in the end widely distributed. It creates a nationally controlled source of raw materials while at

the same time it provides a new market for manufactures. Possessed of such advantages national industry will flourish, giving steadier employment and higher wages, thereby producing a widespread general prosperity. Imperialists pointed to the fact that interest rates were higher in new countries, that, for example, British investors could secure a higher rate on their capital in Canada or Australia than they could at home, and that colonies were necessary as lucrative sources of investment. The nation's capital being most profitably invested the national income would of necessity be higher, and in the last analysis general prosperity and well-being depend upon the size of the national dividend.

Of course, it being obvious to everyone that those who benefited immediately from imperial enterprises were those who were directly interested in them, it had to be shown that all the people in the end benefited as well, and so it was argued if the wealthy stockholders of the various exploiting companies gained, it was a good thing nationally, for it led to increasing expenditure at home which meant steadier employment and higher wages. The servants in the splendid houses and on the great estates of wealthy Englishmen were often paid by the returns from India, Egypt, South Africa, Canada, and the various parts of the Empire. Once it was felt that imperialism raised the national income, it was hard to argue against it, for after all the national income is the source of payment for all social improvements, being the stream from which the government's and all other incomes are drawn. The European workmen have been criticised for not placing a veto upon imperialistic projects; as well criticise the farmers and the workers of America for not placing a veto upon the policy of protection! The common people of Europe were persuaded that the policy of imperialism was to their advantage, and such being the case the European workman could not be expected to oppose the capitalist who derived a good income from the exploitation of backward peoples, seeing that such incomes could be taxed to support schemes for better popular education, national insurance, old age pensions, and other governmental projects for national welfare which the European States were putting into effect.

THE ATTITUDE OF THE SOCIAL DEMOCRATS

During the War we heard a great deal in criticism of the German People for not opposing the imperial aims and ambitions of their ruling classes, but few of us realized how by wise social legislation, just taxation and beneficent governmental expenditure, the German rulers were giving the German people an ever increasing share in the national income. It was this policy which won for the German Government the loyalty of the German socialists. In the days of Karl Marx they were decidedly anti-national, believing in the solidarity of the working classes of all nations, Marx himself going so far as to declare that the workman had no Fatherland, that he owed his allegiance to his class. Long before the War this attitude had disappeared, except for a very small minority, and on the outbreak of the conflict the socialists proved as patriotic and as nationalistic as the members of the other parties. The original Marxian notion of a necessary class conflict scarcely outlasted the Nineteenth Century, a result undoubtedly due to the social betterment plans of the German Government which led the Socialists to believe that theirs would be an ever increasing share in the national dividend, a view emphasized by the "Revisionists" like Bernstein who pointed to the growth in political power of the Social Democrats. As their political power increased they would more and more be able to influence the distribution of the national income, and it therefore behooved them to see that the income was a large one, which rendered them uncritical of the way in which it was got. Like other workers, the socialists came to see that their wages depended upon the state of German industry, and to secure higher wages greater efficiency was needed, and this demanded co-operation with their employers. Dr. Bauer, the Austrian socialist, in his "*Imperialismus und die Nationalitätsfrage*," went so far as to deny that the immediate interests of the wage-earners are the same in all countries, pointing out that the workers in one country often found it to their advantage to side with their employers against the workers and employers in another country. The "Revisionists" did not look for the immediate collapse of capitalism, and in the long

period which must elapse in the evolution towards socialism, the German workers, they held, were justified in supporting policies designed to improve their economic position. It is not surprising then that at the International Socialist Congress held in Stuttgart in 1907, a majority of the German delegates (trade-unionists for the most part) were actually opposed to the resolution of the Marxists condemning colonial wars.

MIDDLE-CLASS OPINION

Since the arguments for imperialism were put in such a way as to make a strong appeal to the workers of Europe, it is evident that their effect upon middle-class opinion was all the more convincing, seeing that no anti-nationalist prejudice stood in the way and the attitude of the middle-classes is always easily swayed by that of capitalists and financiers. So it came about that in spite of the apparently conflicting economic and social ideals of the different classes, each European country displayed upon the outbreak of the war a surprising spectacle of political solidarity. In the creation of this national unity of opinion other elements entered besides the economic, for the advocates of imperialism, as we have already seen, did not rest their case merely upon an appeal to the natural desire for the material requisites of well-being, but having stated with all the force at their command the economic argument, they broadened their appeal to ideal and ethical considerations, hence the coupling of imperialism with patriotism, and the constant self-laudation in the emphasis upon the white-man's burden.

IMPERIALISM AND NATIONALISM

That the intensification of the spirit of nationalism in the Nineteenth Century exerted a powerful influence upon the development of imperialism is beyond question. The European, whether Englishman, Frenchman, German, or Italian, was thinking of the extension of *his* culture, *his* language, *his* political institutions, for *his* was the highest type of civilization. In all countries a certain national pride supported expansion wherever it took place,

and the imperialist who painted in roseate hues the growth of a new England, a new France, a new Germany, or a new Italy could count upon almost unanimous applause and support. "Trade followed the flag, and the flag followed trade," had a vital meaning for the capitalist and financier only because they could depend upon national sentiment to see to it that wherever the flag was and however it got there, in any event it must not be hauled down. To the average patriotic citizen, the flag is *his* flag, the empire, *his* empire; and he feels his personality enlarged and enriched when he can contemplate great territories on which the sun never sets and can call them his own. It was this identification in some dim, mystical fashion of a man's own small personality with a vast empire which brought those Europeans who had no direct interest in the policy to an uncritical approval of imperialism.

ECONOMIC CONSIDERATIONS FUNDAMENTAL

But making all due allowance for national sentiment, still the fact must not be lost sight of that these sentimental reasons were not the motive force behind the policy of imperialism. Like military and moral considerations they came to the support of plans and purposes already at work whose formation was due to the economic beliefs and desires of that small but determined class of financial and industrial leaders who knew what they wanted, and how to plead for it in a way that caught the popular ear. No doubt there were and are in all the European countries, capitalists who sincerely believe that their imperialist ventures were in the national interest, just as there are among us manufacturers who believe that the public gains when Congress gives them the right to tax their fellow-citizens to their own benefit. Psychologists are teaching us something of the powers of auto-suggestion, and we are learning how ardent advocacy often convinces the advocate, and how we can strengthen our belief in a doctrine by repeating its formulæ with sufficient regularity. In this way we can convince ourselves that it is right to do a thing that we want to do, if only we can find a slight ethical justification for it. Now this tendency to find a moral basis for our actions

that are obviously selfish lies deep in human nature. Our self-respect makes this demand. When a people as a whole act in this way, as when we Americans justify our treatment of the native Indians by the ethics of the parable of the ten talents, or when Europeans defend imperialism by reference to the white man's burden, it is not hypocrisy on a great scale, but the pronounced exhibition of a tendency deep in the spiritual nature of man, the tendency to transform material into ideal values.

That economic beliefs supplied the original motive power behind the European Governments' activities which led to the establishment of protectorates and the direct annexation of African and Asiatic lands is seen in the way in which those territories came to be acquired by the European States. The agents of chartered and unchartered companies secured by purchase or intimidation treaties from the native chiefs and kings which were supposed to confer upon their respective companies political sovereignty over vast stretches of territory. Or the seizure may have been made in a less formal way, and with little pretense to legal right, by companies and individual traders settling upon the territories and thus laying the foundations for subsequent annexations. For example, the Germans used the first method to acquire German East Africa and German Southwest Africa, while they employed the latter method to obtain Kamerun and Togoland.

In the interval between the Franco-German War and the Great War, the French added to their possessions about four million square miles of African territory, an area larger than the whole of the United States. Practically all of this vast territory was gained by military conquest. But, to repeat, the military nature of French expansion in the north and west of Africa and that of the British in the south should not obscure the fact that the underlying purpose was economic, the determination to secure raw materials and markets profitable to the people engaged in the enterprise and ultimately to the people at home. The first move of French imperialism was the annexation of Tunis in 1881, and Jules Ferry, the French Prime Minister, in defending his policy in the Chamber of Deputies declared frankly that Tunis was necessary for France as a market for manufactures and a highly profit-

able field for the investment of capital. The annexation of Tunis is a good example of the early working of the policy of imperialism. From 1860 to 1880 French speculators and concessionaires entered the country in great numbers, and proceeded to bring about the financial ruin of the government of the native Bey. Making loans to him at extortionate rates of interest which could only be paid by oppressive taxation of his native subjects, the French financiers soon got the country into a state of recurring rebellion, the natural reaction of people fleeced for the benefit of foreigners. When the country reached a sufficient state of chronic disorder, the French Government was appealed to for the protection of French interests in Tunis, and accordingly a French army was sent over to restore law and order, but the economic motives of the expedition were an open secret, and one of the younger deputies, G. Clemenceau, characterized the whole thing as a *coup de Bourse*, and, as we have seen, Jules Ferry himself later avowed openly its economic purpose. Under the influence of men like Ferry, Etienne, and St. Hilaire, the French pursued a deliberate and carefully planned policy of penetration and conquest. M. Etienne, who was Under-Secretary for the Colonies from 1887 to 1892, employed the method of military and "scientific" expeditions to add millions of square miles to France's African possessions. In 1894 when it was clear that British and French interests would come to a critical conflict over the control of the Nile Valley, M. Etienne urged upon the French Government a forward policy in the face of British hostility, and incidentally explained the motives of his own policy. "We have built up," he said, "and we intend to preserve and develop, a colonial empire in order to assure the future of our country in the new continents, in order to reserve there an outlet for our products (*un débouché à nos marchandises*) and to find there raw materials for our industries."²

The motives of British expansion in Africa were exactly the

² Quoted by Leonard Woolf, *Economic Imperialism*, p. 44. Mr. Woolf is the foremost British student of the subject and I have been greatly influenced by his writings. I take this opportunity of expressing my appreciation of his work.

same as those of the French, and nowhere are they expressed with greater clarity than in the speeches of Joseph Chamberlain, who declared that his colonial policy was guided by the principle that "new markets shall be created and old ones shall be effectually developed." Even Liberals like Lord Roseberry could see the duty of "pegging out claims for posterity." Disraeli has been credited with being the inspirer of the British imperialism of the last quarter of the Nineteenth Century, but that is not really the case, for his imperialism was of the sentimental sort, which loved a bombastic display of power, an imperialism of "ships and men and munn-aye too." It differed profoundly from the calculating economic imperialism of Chamberlain and Cecil Rhodes. Gladstone by the Pretoria Convention of 1881 restored self-government to the Transvaal under the "suzerainty" of the British Crown, but the boundaries were not decided till 1884, and Rhodes saw to it that the boundary line between the Transvaal and Bechuanaland was drawn in such a way that the *trade routes* would lie wholly within British territory, even though this put part of a native tribe on one side of the line and part on the other. Contrary to what the British Liberals had in mind, it was the purpose of Rhodes and his associates to surround the Boer Republics, looking ultimately to their annexation, a plan which came to fulfilment in the Boer War. It is an extraordinary fact that not only were the motives of British expansion in South Africa economic, but the policy was actually carried through by an economic organization, the British South Africa Company, incorporated in 1889, of which Cecil Rhodes was the directing spirit, and Dr. Jameson his lieutenant. The conquest of Mashonaland and Matabeleland was the work of mercenary forces in the employ of this joint-stock company, and it is interesting to note that the recruiting inducement was the primitive one of loot, to share with the company the lands and cattle of the natives.

The part played by commercial companies in the acquisition of territory is well illustrated in the way by which the European Powers came into control of their central African possessions. The agents of the companies proceeded to barter a few articles, trinkets, cloth or liquor, something that had caught the fancy of

a chief, for his signature to a treaty giving the company sovereign rights over his lands and his people. It mattered little whether the chief knew what sovereignty meant or not, the important thing is that the company obtained what it considered a legal right to do pretty much as it pleased, and could oppose the claims of rival Europeans if need be. The British claim to Nigeria rests upon a large number of such treaties obtained by the agents of the National African Co. Ltd. from the native emirs and rulers of the country. The same is true of the English claim of British East Africa and Uganda. In 1884 the German explorer, Dr. Peters, obtained on behalf of "Die Gesellschaft für deutsche Kolonisation" a large number of treaties which became the basis of German "rights" in German East Africa. The most notorious example of this method, however, was the acquisition of the Belgian Congo by King Leopold through the treaties made by Stanley in the name of the association organized and controlled by the Belgian king. In the last twenty years of the Nineteenth Century, European commercial companies obtained sovereignty over some two million square miles of African territory and about fifty millions of natives. These companies, under the control of financial groups had the approval and encouragement of their governments. These incorporated companies were given charters of the widest latitude, their privileges in African territories were not only economic but political as well, their purpose was to make money, and to this end they were given powers of government even to the extent of making war. The officers and agents of these companies were certainly placed in a position where the temptation to abuse such powers was very great, for their immediate duty was to make the company a paying concern, and to achieve this purpose they could employ not only the usual methods of industry and commerce, but could also wield the power of life and death over the natives.

IMPERIALISM IN ASIA

Economic imperialism in Asia was for the most part compelled to take a different course from what it did in Africa. The primitive methods of war, conquest and annexation, were easily applied

to the uncivilized tribes of Africa, and at first the same policy was applied in Asia, but it was soon seen that in Asia, where there were long seated and highly complex civilizations, conquest and annexation would be a difficult and wholly unprofitable course to pursue. Actual European annexations have therefore been few in number and confined to relatively small areas. In 1883-4 French aggression against the Chinese Empire ended in the annexation of Annam and Tonkin. In 1886 the British completed their Indian possessions on the east by deposing the King of Burma and annexing his country. They rounded out their possessions on the west by bringing Baluchistan within their Indian Empire. In 1860 Russia pushed her Siberian Empire to the Sea of Japan, gaining her objective, the port of Vladivostok, through the annexation of the Maritime Province. By 1885 Russia had completed her annexation of Turkestan. When the great War came, the Netherlands held possession of the Dutch East Indies which had long been theirs, the British were seated in Hongkong, Wei-hai-wei, the Straits Settlements and the Malay Straits, the Germans held Kiaochau and economic control over Shantung. In 1914 these were the principal European possessions in Asia. The rest of the great continent was not brought within the European Empires directly, but while the political status of China, the Ottoman Empire and Persia was left for the most part apparently untouched, still the European economic system penetrated very deeply, and the Europeans had gained the concessions and the financial control which they were after. Only Japan was left economically as well as politically independent, owing to the fact that Japan had deliberately adopted Western ideas and methods in order to protect herself against foreign political control and economic exploitation.

THE NATIVE UNDER IMPERIALISM

What has been the effect of imperialism upon the native populations of Africa and Asia?

The European has carried his economic system to Africa, and that means that the primary purpose of those in charge of the enterprises is to make profits. Now the African had no idea of

efficiency or of regularity in his work; by nature the black men, particularly those under tropical suns, want to take life easy, all of which gets on the nerves of the European manager, and the result is laws and regulations to make the "lazy niggers" work. In many parts of Africa a system of scarcely disguised slavery has grown up. African life was primitive and for the most part communal. The Africans as a rule lived in tribes under the government of chiefs and kings, the land belonged to the tribe, and all more or less shared in it. This social and economic system the European supplanted with his system of individual ownership of land and the instruments of production, making of the natives a landless and propertyless class living upon money wages. It would have been possible to adapt slowly the African to the modern system, but the financial and exploiting groups were bent upon making money in a hurry, and so throughout Africa, except for some British possessions on the West coast, the European instituted his system forthwith, resorting to direct or indirect compulsion to make the natives work for wages. All the world knows the fearful story of the Belgian Congo, the cruelties and brutalities which accompanied the expropriation and exploitation of the natives. The same policy was carried out later ruthlessly in the French Congo, and in certain parts of the German possessions. In fact the policy of callous disregard for the rights and wishes of the natives has been the rule to a greater or less degree throughout the whole of Africa, except in the British possessions, Nigeria, Gambia, Gold Coast, and Sierra Leone, where the British Government has treated the land as the property of the native tribes and has encouraged the natives to make the best use of it under modern conditions.

To compensate for the seizure of the natives' lands, and the institution of what is practically forced labor, what have the Europeans done to give the Africans the blessings of Christian civilization? Out of about 170 millions of population there are about 9 millions of natives professing Christianity. This is the result of the missionary activities of the European and American churches, the states of Europe quite properly regarding religious activities as outside the sphere of government, but those Christians back

home who condone economic exploitation by reference to the white-man's burden would be more convincing if their missionary activities were carried out on a greater scale. However, the modern state does assume responsibility for education, and if the Europeans had been seriously bent upon giving the Africans the benefits of civilization they would have made education of the natives a matter of prime importance. Only the slightest attempt at education has been made. For example, in Nigeria, the best administered possession in Africa, there were in 1913, "54 government schools with 6000 scholars on the roll and an average attendance of 4500; 80 assisted schools, 16,500 on the roll and 12,500 in average attendance; and some 400 private schools with 29,000 on the roll and 19,000 in average attendance."⁸ That was the situation in a territory as populous as the states of New York and Pennsylvania combined. The school enrollment of 50,000 means that about one child in fifty was exposed to some sort of an education, and this is the educational status of African dependencies at its best. In Uganda, in the same year, where revenues to the amount of £256,559 were collected, the government granted £1,250 towards scholarships, etc., in the missionary schools. The population of the French Congo was about 9 millions in 1913, and in the schools public and private there was an enrollment of 7500; New York state with the same population had in the same year an enrollment of 1,349,758. In Togoland with a population of about a million, the Germans had established by 1913 two government schools with 312 pupils, the missionary societies had 368 schools with part-time attendance by 14,653 native children. This is substantially the educational position of Central Africa. Evidently the white man has not burdened himself greatly with the education of the natives.

ACTUAL ECONOMIC RESULTS

And what advantages have the European peoples reaped from the activities of their imperialists in Africa and Asia?

⁸ These figures and the ones which follow are taken from the Statesman's Year-Book 1915.

Those who have gained and still profit answer with high sounding rhetoric and a wave of the flag, but the real answer cannot be given that way, it can only be obtained from a careful study of statistics. Recall the arguments used for the seizure of African territory; it would provide the Europeans with (1) a new home for emigrants over-seas, (2) a new market for manufactures, (3) a valuable source of food and raw materials, (4) a place for the lucrative investment of capital. Let us make a brief, dispassionate examination of these arguments in the light of cold facts.

I. The Failure in Colonization

After Livingstone and Stanley had focussed the attention of Europe upon Africa, the talk of colonies was heard everywhere. But knowledge of the huge African continent was very hazy indeed; however, disillusionment came quickly with first-hand experience of African conditions. It was soon discovered that Africa never would be colonized by white men in the way in which America had been colonized. Only in a very few parts of the continent can the white man settle, do manual labor and raise a family, for the climate is not at all suited to his constitution, the tropical regions being enervating when not positively dangerous to health. In the north and south of Africa only are to be found conditions favorable to the life and health of white men, and even to those regions the number of emigrants has been remarkably small. In 1911 Algeria had been in the possession of France for eighty years and out of a population of 5,563,828 there were but 795,522 Europeans of whom half a million were French. The population of the Union of South Africa was in 1911 5,973,394 and of this number 1,276,242 were Europeans. This is the situation in the very best parts of Africa, in territories which have long been under the control of European States, and at best it can only be said that white men are still but a small minority of the population, and judging by the fact that in South Africa in 1904, 21.58 per cent of the population was white and in 1911 the percentage actually fell to 21.37, it does not appear that the ratio of white

people to the natives is going to be altered for some time. European failure to colonize Africa is shown conspicuously in the case of the tropical regions. French West Africa comprising the possessions of Senegal, Guinea, Ivory Coast, Dahomey, the Niger territory and Mauritania have an area of 1,478,000 square miles, a total population of 12,054,753 of which 9,935 were Europeans. The German possessions of Togoland, Kamerum, German South-west Africa and German East Africa had an area of 931,280 square miles, a total population of 11,301,845 and a white population of 22,391 in 1912-13. The British territories of Nigeria, Gold Coast, Uganda, Nyasaland and British East Africa have an area of 832,574 square miles with a native population of about 25 millions and a white population of about 12 thousand. These figures tell their own story; they reveal the imperialist's love of fiction and the necessity for his use of that high-sounding rhetoric which impresses popular audiences so greatly, more especially when it is dissociated from facts.

The situation is not at all different in Asia. British power has been firmly seated in India for over a century and a half, and today the white population, European and Eurasian, is a very tiny minority, less than 200,000 out of 315 millions. An English writer sums up the situation thus: "Not only is there no white race in India, not only is there no white colony, but there is no white man who purposes to remain. . . . No ruler stays there to help, to criticise or educate his successor. No white soldier founds a family. No white man who makes a fortune builds a house or buys an estate for his descendants. The very planter, the very engine-driver, the very foreman of works departs before he is sixty, leaving no child, no house, no trace of himself behind. No white man takes root in India, and the number even of sojourners is among those masses imperceptible."⁴ Undoubtedly, what happened in America was in the mind of the European imperialists who dreamed of Colonies in Africa and Asia, but the American phenomenon will never again be repeated; there remains no thinly populated great continent with the right climatic conditions calling

⁴ Quoted by H. M. Hyndman in *The Awakening of Asia*, p. 206.

to the Europeans to come and create a new world, unless it be Australia, which is definitely set in the British mold.

2. *The Trade Situation*

If imperialism has furnished the European countries with a market for manufactures and an important source of raw materials and food, import and export figures will prove this. But the minute we examine those figures we find that we are face to face with another of the imperialist's fictions. The delusion in the case of Africa is particularly striking. Take the British statistics for West Africa and East Africa, comprising the following possessions, Gambia, Sierra Leone, Gold Coast, Nigeria, East Africa Protectorate, Somaliland, Uganda, Nyasaland, Zanzibar, and Pemba. Including bullion and specie, the total imports of these possessions amounted to £19,715,216 in 1913, and the total exports amounted to £18,999,602. If we exclude bullion and specie, the total imports would amount to about £16,500,000 and the exports to £17,500,000. The imports of these possessions from the United Kingdom amounted to £8,093,000, and the exports to the United Kingdom came to £6,183,000. As the total of imports into the United Kingdom reached the value of £768,735,000 and the total exports amounted to £634,820,326 it is seen that less than one per cent of British imports came from her tropical African possessions and only a little more than one per cent of her exports went to them. If Great Britain had been able to monopolize the whole of the trade of these territories, it would have amounted to only two per cent of her total overseas trade. The economic importance of all the British tropical African possessions to the United Kingdom is about the same as that of Chile and Peru taken together. This vast African Empire acquired at great cost of blood and money is about as important for British commerce and industry as these two South American Republics which Great Britain does not "own," and which she was not required to conquer. The United Kingdom imported from the Argentine Republic produce to the extent of £42,485,000, and exported to her goods to the amount of £22,641,000 showing that

this independent South American state was seven times more valuable as a source of food and raw materials to the people of Great Britain than their whole tropical African Empire and nearly three times more important as a customer for British manufactures.⁵

The British policy is that of free trade, but the situation is not different in French tropical African possessions, where the policy of protection and monopolization has been tried. French West Africa and French Equatorial Africa combined in 1913 imported from France goods to the amount of 75,284,450 francs, out of a total of French exports amounting to 6,880,200,000 francs which means that only one and one-tenth per cent of the total French exports were taken by these African possessions. The same territories exported to France produce to the amount of 80,755,462 francs which is less than one per cent of the total of 8,421,300,000 francs of French imports in the year before the war. Not only that, but these French possessions took imports from countries other than France to the extent of 95,083,359 francs and exported goods to them to the amount of 81,687,949 francs which shows that the French policy of protection and monopolization had little effect in changing the normal channels of trade. The plain truth is that French and other merchants apply the ordinary principles of trade; they sell where they get the best price, and they buy where they can do so to advantage; whether a man is a Frenchman or an Englishman is an irrelevant consideration when it comes to selling dear and buying cheap. In this connection, the above figures show how strong natural economic forces are in overcoming the artificial handicaps of tariffs and other restrictions. The figures for French-Indo China are even more convincing. Out of imports having a total value of 306,238,068 francs, goods to the value of 194,931,643 francs came from countries other than France and French colonies. On the other side of the balance, the figures tell the same story, Indo-China exporting to the *other* countries produce to the value of 261,935,838 out of a total of 345,259,253 francs. Take all the French colonies with the excep-

⁵ The statistics given above and those which follow are taken from the *Statesman's Year-Book*, 1915.

tion of Algeria and Tunis;⁶ in the year of 1913 their total imports amounted to 681,389,838 francs of which imports to the value of 376,983,440 francs came from countries other than France and French colonies. Of the total exports of these possessions amounting to 765,140,602 francs 445,488,736 francs' worth of goods went to the *other* countries. That is, of the total foreign trade of these possessions only 43 per cent was with France and her colonies while 57 per cent was with the rest of the world.⁷ It was a favorite argument with Jules Ferry and the French imperialists who succeeded him that these possessions were extremely valuable to France, and their seizure and administration was necessary for the growth of French commerce and industry. Conquest and seizure was an expensive matter and the result has been to benefit the outside world more than France. These official colonial statistics reveal more than anything else the economic delusions underlying the policy of imperialism. British statistics are just as convincing, but the British imperialists of the Chamberlain school always came back with the quick retort that the poor showing of their imperial possessions was due to the policy of free trade, that things would be entirely changed if Great Britain would only put into effect a policy of protection and imperial preference. French experience completely demolishes this contention.

The economic results of the innumerable military expeditions sent from Algeria and Tunis into the interior of Africa have been ridiculously small, about two per cent of the total French import and export trade was with the territories so acquired, in the years immediately preceding the War. The same results practically followed British conquests. Germany's trade with her African possessions was less than one-half of one per cent of her total foreign trade. What then was the matter with the imperialist's arguments? On their face they appeared plausible, but that was due to the Europeans picturing in their minds European conditions, and then transferring those conditions to the African tropics, a

⁶ Algeria and Tunis are included within the French national fiscal system, and their statistics are not separated from those of France.

⁷ See the detailed and enlightening figures given on p. 882 of the *Statesman's Year-Book* of 1915.

perfectly natural and human procedure. The French, British, or German imperialist who talked eloquently of the needs of millions of people in Africa was in a subtle, perhaps half-conscious way suggesting that their needs were the same as those of Europeans, whereas the social and economic conditions under which the natives live are altogether different. The tropical African natives who prefer to live in Adam and Eve style are not valuable customers for the textile merchants of Manchester and Lille. The purchasing power of the Africans too is notoriously small. In many parts of the continent their wages run from four to eight cents a day, and out of such small amounts the natives must supply themselves with food, and pay taxes. Is it any wonder that they are not good customers for the manufactured goods of the highly industrialized European states?

3. Imperialism and Raw Materials

The importance of imperial possessions as sources of raw materials has been greatly exaggerated. No imperial possession of Great Britain, France or Germany in the years before the War, began to compare with the United States as a source of food and raw materials. Why, in 1913, British imports from India were only one-third as much as those from the United States.⁸ The 10 million dollars' worth of palm oil from British African possessions is a small matter compared with the 235 million dollars' worth of raw cotton, or the hundred million dollars' worth of wheat and wheat flour imported from the United States in 1913. The total imports into Germany from all of her imperial possessions in the year before the War amounted to about 13 million dollars, while her total imports from the United States amounted to about 345 million dollars.⁹ In the same year France took about 160 million dollars' worth of our products, an amount about three times as much as the total of her imports from her huge African Empire outside of Algeria and Tunis, and an amount considerably in ex-

⁸ In 1913 imports from the United States were £141,652,000; from India £45,420,000 value.

⁹ Our department of Commerce figures for the year 1913-4.

cess of all the imports from Africa even when these two territories are added.

All the world knows that the United States is the greatest single source of food and raw materials to the European countries, and they do not need to "own" an inch of American territory to get what they want, provided they have the price. Our Southern planters and our Western farmers do not inquire what is the ultimate destination of their produce before they sell, they deal with anyone who will meet their terms; it is a matter of business purely, and the question whether the purchaser is an Englishman, Frenchman, or German is altogether irrelevant. The same thing is true in Canada, in South America, in India, and over practically the whole world.

HOW COLONIES ARE OWNED

A great deal of confusion arises from the loose use of the term *possession*. In his "Expansion of England," Seeley notes that the term was first used by the Spanish in speaking of their American colonies, which were, in the true sense of the word, possessions, and the Spaniards helped themselves to the gold and silver of Mexico and Peru, so long as they had to deal only with the natives, but as soon as these possessions became colonies in the real sense of the word, being sufficiently inhabited by Spanish people, the attempt to continue exactions led to revolt and the setting up of independent republics. Brazil taught the Portuguese the same lesson, that it is not possible to rule a real colony of any size for the benefit of the mother country chiefly. Our Declaration of Independence taught the British this important lesson, and the development of dominion self-government has been the way by which the most important parts of the Empire have been held together under the nominal sovereignty of the King in Parliament. But, why in the name of common-sense should anyone speak any longer of Canada or Australia, which in reality are self-governing nations, as possessions? To use such a term is to suggest ownership, and ownership in turn suggests something valuable, for, if we own lands, buildings, stocks, bonds, etc., we derive part of our income from them. Now when the imperialist tells his fellow-countrymen

of the benefits to be derived from imperial possessions, his assertions seem axiomatic, because of our habitual association of income with ownership. In the last analysis, the people who own Canada or India are the ones who hold property rights in those countries and no others. It is all very well for a schoolmaster in the east side of London to point out to his class of poorly fed, ill clad pupils, the great stretches of territory on the map which they in common with all Britons own, but the plain truth is such "ownership" does not help the family budget, and if any Englishman took the imperialists too seriously, and started to sell shares based upon his ownership in the British Empire, English Law would soon land him in jail as a common swindler, or more likely he would find himself in an insane asylum for being *non compos mentis*, as evidenced by his inability to distinguish between rhetoric used for political purposes and the ordinary rules of conduct. The history of human thought shows that before we understand a thing we give it a name, and the term comes into general usage and is fixed as discussion proceeds, thus economists speak of "favorable" trade balances, mathematicians of "imaginary" numbers, politicians of colonial "possessions," and so on. Now as names these words may sound all right, but people naturally forget that they are technical terms, and associate with them their ordinary meanings, leading to no end of confusion and erroneous ideas.

Under modern conditions a colonial empire to be exploited for the benefit of the home land cannot be maintained. The history of the British Empire proves this conclusively. To-day we know that a colony to be valuable to the European state which founds it must have the same needs and wants that exist in the motherland; that means that it must become settled and highly civilized after the European fashion, but no sooner is this accomplished than it ceases to be amenable to political control or economic exploitation; it demands and receives self-government, and it orders its economic life in its own way. Thus Canada to-day is self-governed and buys three times as much from the United States as it does from Great Britain. The whole trouble with the policy of imperialism is that it connects too closely economic advantage with political association. Thus Pan-German writers before the War assumed

that the defeat of Great Britain would be to the commercial advantage of Germany, but we know now that military or naval power is useless to capture trade with highly developed regions whose wants amount to something. Had the German fleet sunk the British navy, would the Australians, the Canadians, and Indians for that reason be inclined to purchase German goods? Of course such an event would have created an immensely complicated political situation, even more chaotic than the situation in central Europe actually became, but that would have meant injury to German commerce, not advantage. Any attempt to rule from Berlin the British dominions accustomed to self-government would have met with complete failure. There is only one way in which Germany or any other country can get their trade and that is for German merchants or the merchants of other countries to make it profitable for merchants in the dominions to deal with them.

The trade of the European countries with each other is far more important to each of them than their trade with African and Asiatic countries. In the year before the war, Germany's trade with Great Britain was twenty times more extensive than her trade with her colonies. And once we have grasped the real meaning of trade, we understand why this should be so. The German imperialist who was willing to risk a European war in pursuit of the so-called "prizes of imperialism" was a reckless fool. Naturally, trade between Germany and Great Britain, two highly developed industrial countries, was very profitable to both of them. Trade is exchange, and it will always be most extensive and advantageous between great commercial countries who can satisfy each other's wants by giving a *quid pro quo*. This is an extremely elementary principle in economics, but unfortunately is almost always left out of popular discussions of commercial policy. Imperialism and protection flourish in ignorance of this fundamental principle. No one capable of learning from experience talks in Great Britain to-day about the desirability of ruining Germany commercially and industrially; on the contrary, British purpose is to restore Germany and central Europe to economic health so that the old and profitable trade may be revived. Because of the conditions prevalent on the continent, Great Britain has had to struggle with

the greatest unemployment problem in her history. How ridiculous seem to-day the predictions of British imperialists who prophesied great trade advantages from the destruction of German commerce!

In considering economic imperialism we must be careful to distinguish between individual and national advantage, just as we did in analysing the contentions of protectionists. Undoubtedly concessionaires and exploiters may and have profited, and insofar as they can do so without calling in the power of the state, thus bringing upon all of the people a burden of expense out of all proportion to the gain, they are at liberty to make the best of their opportunities. But, in our own case, our government should make it perfectly clear that the force at its disposal is not to be used to sustain concessionaires outside the bounds of our union, and that it will not support financiers and industrialists who become involved with the governments or people of backward countries. After our Civil War, Europeans invested heavily in American railways and industrial enterprises, but the investor took the risks. This is sound policy. If Americans wish to invest or conduct enterprises abroad let them do so at their own risk. Our government would be very foolish to allow itself to become in any sense the sponsor for an imperialist policy. For example, our government is pledged to the "open door" in China. It should support that policy by diplomatic action, as it has done in the past. But, if an American corporation wants to develop a mine in China or build a railway, let it be understood that it does so at its own risk, and that our government is in nowise involved. The same thing should apply to our relations with the Latin American states. If our banks open branches in South America, they must conduct their business in accordance with the banking laws of the country in which they locate. We should not think of treating weaker nations in a way we would not tolerate ourselves. It is sheer economic folly of the "penny wise, pound foolish" kind to maintain costly armies and navies to force upon backward peoples trade which at most is a mere bagatelle compared with a modern nation's internal trade and its commerce with nations as advanced as itself. The imperialist policy is plausible only in an age of economic ignorance.

CHAPTER VI

Reparations and Interallied Debts

IF the position of our farmers is to be permanently bettered, if our great manufacturing plants which have a capacity beyond our own needs are to be fully employed, the purchasing power of Europe in our markets must be restored. It is generally agreed that the difficulties arising out of reparations have proved the greatest obstacle in the economic recovery of Europe. The Treaty of Versailles took away from Germany both the means and the incentive to pay. The Reparations bill was padded, by the inclusion of pensions and separation allowances, until it reached a total far beyond Germany's ability to pay. The placing of an impossible burden of indemnity upon the most productive area of Europe could have no other effect than to check the economic recovery of Europe as a whole. It was German trade, German organizing ability, German finance that animated and directed the economic life of central Europe in pre-war days, and a policy that aimed at real commercial and industrial restoration should have been guided by this vital fact. Germany no doubt has suffered most from the folly of the peacemakers, but the allied countries and ourselves have suffered as well. Such is the nature of our economically interdependent world. Great Britain and we have lost and are losing valuable European markets. Italy suffers too from impoverished neighbors. On the other hand, out of the turmoil France has got little of the true reparation payments to which she is entitled. From the economic standpoint no good and much harm has resulted from the current ignorance and illusions reflected in the reparation clauses of the Treaty.

OUR RESPONSIBILITY FOR EUROPEAN CONDITIONS

As a whole our people believe that we have no real responsibility for the situation in Europe. They feel that Europe's troubles

are of her own making, and in their hearts echo the phrase of thanks, that we are "damned well out of the whole mess," with which ex-Ambassador Harvey justified our present policy. But our responsibility in the matter cannot be disposed of in so cavalier a fashion. Whatever we may wish to think, the truth is that in intervening in the great conflict we incurred responsibilities which we cannot lightly throw aside. We entered the war at a critical moment and modified its result. A dictated peace, which lies at the bottom of the "mess," was only possible through the unreserved use of our power. The fact that our intentions were good does not free us of responsibility for the actual results which we contributed decisively to achieve. Without the intervention of the United States, there is good reason to believe that the European powers would have negotiated peace in the fall of 1917. Because of pressure from the working classes, the peace, in all probability, would have been largely a restoration of the *status quo* on the principle of no annexations and no indemnities, with all the belligerents sadder and wiser, and, we should add, poorer, but cherishing no illusions about forcing the enemy to make good their losses. Such a peace would not have been ideal—far from it. But, it would have been a peace without victory (which President Wilson in his most discerning moments wanted) and, therefore, without dictation. Economic illusions, keeping Europe in turmoil, could not have been written into such a settlement. That such a peace was not made is due to the American government and people. We added the power necessary for a decision. In so doing we assumed a grave responsibility for the peace and well-being of Europe, and our obligation is in no way modified by our present ostrich policy, whatever our isolationists may think as they close their eyes to Europe and her difficulties.

To the German people we have a very great obligation to fulfil. It was to our government that Germany turned when she asked for an armistice, offering to make the peace which our government had outlined. President Wilson and our allies in the most binding manner agreed to make such a peace. The most definite stipulation referred to reparation, and Germany was obliged only to pay for actual damage done.

The average American feels that Europe has every reason to be thankful to us. He passed through the war, steeped his mind deeply in the propaganda handed to him, and naturally thinks of his country as the savior of civilization. Most Americans will never look upon our participation in the war in any other light. Did they not buy Liberty Bonds, furnish Liberty Motors, eat Liberty Bread and do a hundred and one other Liberty things; and who went away with the liberty but Europe? Is not the Kaiser with his mailed fist in Holland? What more do the Germans want? Did we not liberate them? But, then, some people will never be satisfied! When the informed European liberal criticises us for violently upsetting the balance of power and then withdrawing our moderating influence, he is simply talking a language which Mr. Average American does not understand. Lately it has been fashionable for European liberals to damn our effort with faint praise and to upbraid us for political incompetence and inexperience when we undertook to deal with complicated issues. It is perhaps a sufficient answer to point out that as a people we have never been much interested in European politics, and that most of us got our first lessons and our last in that subject from the war propaganda of the Allies. During the war, we were told not to bother ourselves about the political aspects of the struggle, and we did not. Military victory would be all-sufficient. When it was achieved, we naturally packed up our troubles in our old kit bag and came home. Now we are safely tucked away in our traditional shell of isolation, and the danger to ourselves and Europe is that "damned custom has brass'd it so, that it is proof and bulwark against sense." However, in one respect we have not cut our connections with Europe. We have not cancelled the Allied Debts due us. We have, it is true, tried to safeguard our isolation, by declaring that the debt question is not connected with any other. But the Allies will not have it so. Great Britain in the note of Lord Balfour gave us the lie direct, linking the Allied debts together; while France in the words of M. Poincaré gave us the lie circumstantial, joining reparations and Allied debts; and Italy in the words of Premier Mussolini gave us a retort courteous to the effect that Poincaré was justified in linking together the debts and

reparations. Sooner or later the debt problem will bring us face to face with European political conditions, for the reparations question goes to the heart of the matter.

GERMANY AND THE PAYMENT OF REPARATIONS

The year which saw the signing of the peace treaty and the years immediately following might fittingly be called the *period of illusion* in the history of the reparations problem. All kinds of impossible figures were suggested as the amounts which Germany ought to pay. Compared with some of the estimates, the actual total of 132,000,000,000 gold marks, fixed by the Reparations Commission on April 27, 1921, seems moderate indeed. As we look back upon them to-day we are astonished at the estimates of German capacity to pay put forth by eminent bankers and business men at the time the peace conference was sitting. It seems strange that errors of such magnitude could have been made, and yet, there is a perfectly clear explanation of these illusions. Those estimates were based upon calculations of the wealth of Germany and her capacity to produce. But ability to produce wealth and ability to pay foreign debt are not exactly the same thing. Least of all can we calculate capacity to pay by taking an inventory of the wealth of a country. Manhattan Island and its skyscrapers, the plants of the United States Steel Corporation, the Pennsylvania Railroad, all these when valued in dollars would make a very respectable total; but they are here and here to stay; they could not be transferred to another country, and so could not be ear-marked for payments of an indemnity. Only goods and services against which bills of exchange can be drawn are available for the payment of foreign debt. And in the case of payments on a great scale the matter is complicated by the refusal of other countries to accept the goods and services proffered. When Germany began to pay Great Britain, British businessmen and labor leaders began to complain of the injury done to their trade, and it was not long till Parliament passed the Safeguarding of Industries Act, a form of protection directed against certain kinds of German goods.

Very valuable lessons on the nature of international trade and finance can be learned from the attempt of Germany to pay reparations on a great scale at a time when she did not have the trade necessary to support her financial operations. The recent financial history of Germany is invaluable as a guide for the future, and, therefore, we propose to review its essentials very briefly.

WHY THE MARK SANK

The common explanation of the depreciation of the mark is the currency inflation in Germany, and, if you were convinced during the war that the Germans were a superhumanly wicked people, you will agree that the inflation was due to a plot to avoid reparation payments. That the depreciation of the mark is due to inflation goes without saying, but that does not answer our question, which demands an explanation of inflation. That a government in hard straits can obtain a loan by inflating the currency has long been known and practiced. During the war this practice was resorted to by all of the European governments to a greater or less extent. The British inflated their currency slightly, while the continental states kept the printing presses running at a good rate. At the close of the war the currencies of all the European belligerents had depreciated. To say that inflation began in Germany before reparation payments is thus perfectly true, but is no answer to the question: Why did not the Germans stop inflation and thus stabilize the mark? The reason is that their government was powerless to prevent a budget deficit. That deficit was covered by the government's borrowing notes from the Reichsbank in exchange for its own short-time bills. Now it does not make a bit of difference whether a government prints its own currency notes or has them issued by a bank. So long as it can borrow freely, it is responsible for the inflation. The German government has been severely criticised for not balancing its budget, but it has a complete answer to this criticism. It declares that it could have balanced its budget within a year or two after the close of the war, had it not been for the reparation payments which it was forced to make. Germany was required to pay reparations at a

time when her people had no real *exportable surplus* with which to pay and, furthermore, when the government had not the required *treasury balance*. The number of bills on foreign countries held by German bankers and foreign exchange houses was strictly limited and hardly sufficed to meet the demands of German importers. With such a condition prevailing the German government was forced to come into the market as a heavy buyer of foreign exchange, to meet reparation payments. To get any considerable part of the small supply away from private buyers the government had to bid up the figure to an exceptionally high price—the cost of the dollar in marks reached what with ordinary commercial dealings would have been considered an absurd figure. To get the wherewithal the government borrowed at the Reichsbank, and the bank printed the notes required. The mark quoted in cents thus continued to fall. As it fell, marks were sold abroad to people who hoped and believed that Germany would somehow get over her difficulties and that in time the mark would rise. Speculation led to the purchase of German currency and the making of deposits in German banks by foreigners. In addition, with the external undervaluation of the mark, it was profitable for capitalists in Holland and other western European countries to invest in German property. For a while this placed a small balance of exchange in German possession which the German government was able to turn over to its creditors. But every time it went into the exchange market and made its purchases, a further inflation of the currency took place.

There is no need to put forth the plot theory to explain the fall of the mark. That reparation payments had a decisive influence in causing inflation no economist will deny. Nor will he deny that it was beyond the range of possibility to stabilize the mark while Germany was required to make the reparation payments demanded of her. Upon this point nothing can be more conclusive than the fact that both the majority and minority reports, made in November, 1922, to the Reparations Commission by the technical experts on the stabilization of the German mark, agreed that stabilization could not be effected unless reparation payments were suspended for a while. Furthermore, political events such as the

loss of part of Upper Silesia and the invasion of the Ruhr had a disastrous effect on depressing the mark, and it has frequently happened that notes had to be issued to make up for the fall, thus reversing the usual condition of cause and effect, the increase in note circulation being due to the decline in the value of the mark which resulted from discounting the effect of political action.

THE DAWES REPORT

The question of Germany's capacity to pay was made the subject of an exhaustive report by the Dawes Committee. On the whole, considering the nature of the subject and the composition of the Committee the report was an excellent one and as free from political bias as it is possible to make such a document. The number of inconsistencies in it are surprisingly few, considering the wide differences in the French and English points of view. They are perhaps most noticeable in the discussion of the "commensurate burden" principle. For example, after stating clearly how an external debt differs from an internal debt, how the "extinction of the German debt has after all been at the expense of her own nationals, who are her taxpayers," the report goes on to say, "The German taxpayer should regard a payment in respect of war debt exactly as an allied taxpayer regards a similar payment. Its ultimate destination need not concern him and is certainly no justification for him to attempt to evade it." That is the German taxpayer should be as willing to pay over money to his government, knowing that it is to be paid to Frenchmen, as the French taxpayer who pays his tax, knowing that it is to be returned to Frenchmen in the shape of interest on war debt. But, in the very next paragraph, the report gets back to sense. After pointing out that if the German War Debt charge were as onerous as the Belgian, French, British or Italian, then the German debt charge would come to about 6,000,000,000 marks, "But in this case again the charge is to a considerable extent in the nature of a redistribution of annual wealth among the members of each nation and has little relation to the problem of a national burden in the collective sense"; all of which is perfectly true, but does not square with the idea that the German debt extinction "renders both practicable and just a

greater charge for other war debts than would otherwise have been possible." However, those are small matters, and it was a necessary thing to get a report worth trying out, agreed to by both the British and French representatives.

While we are on the subject, it is interesting to note how widespread popular ignorance of economic matters is. Well-informed correspondents such as Edwin L. James and Frank Simonds have been all at sea in discussing Germany's ability to pay. They seem to think that the vanishing of the mark has relieved Germany of her war debt, and that "if Germany accepts the experts' plan and carries it out she will nevertheless have beaten the game of liquidation of war costs." Such an idea, of course, is arrant nonsense. Speaking in the terms of realistic economics, the war has been paid for in all the belligerent countries. The real costs were the services of the men and women, including those of the men in the armies, and all the materials used. The Civil War cost our Southern States dearly and retarded their economic development for a generation. The extinction of Confederate indebtedness did not alter this fact. Let us constantly keep in mind that, from the national viewpoint, the costs of the war were paid during the war. The so-called process of "paying for the War" is a matter of distribution, the taking of wealth, to be created in the future, from one set of citizens and the turning of that wealth over to another set of citizens—a process which leaves the nation neither better nor worse off than before. Debt extinction in Germany has benefited some Germans and to a corresponding degree injured others. If the franc went the way of the mark, France as a whole would not gain. On the contrary the "flight from the franc" which would inevitably set in would work a serious injury, just as happened in Germany. France would not "beat the game" in the way people commonly think.¹

¹ See the articles by Mr. James in the *New York Times*, April 10, 1924, and by Mr. Simonds in the *Boston Herald* of March 30. It may seem unfair to refer to these well-informed correspondents seeing that they reflect merely the prevalent attitude. I do so only to emphasize the point that even intelligent men untrained to economic inquiry fall easily into serious errors.

The Dawes Committee recognized the fact that Germany's capacity to pay depends upon two things: (1) the amount of revenue Germany can raise available for reparations account and (2) the amount that can be transferred to foreign countries. They proposed to provide for the first from three sources: (a) from Germany's ordinary budget, (b) from railway bonds and transport tax, (c) from industrial debentures. The total payments are to rise from one billion gold marks the first year to two billion five hundred million in the fifth or standard year, and one-half this sum is to come from (a) the German budget and will have to be met directly by taxation. This total is subject to correction according to a complicated index of prosperity. All payments for the account of reparations are to be deposited in the new bank of issue to the credit of the "agent for reparation payments." He shall withdraw money from this account only under the direction of "the Transfer Committee," whose business it is to "control the transfer of cash to the allies by purchase of foreign exchange, so as to secure the maximum transfers without bringing about instability of currency." In this way Germany's capacity to pay in the second sense will be determined. Considering Germany's experience with the mark this is a wise and necessary provision.

No notice was taken of the "plot theory" by the Dawes Committee, for the simple reason that ordinary economic causes are adequate to explain the course of the mark. The committee further recognized the necessity for currency stability in their proposals for the bank of issue with a capital of 400 million gold marks to be subscribed in Germany and abroad. They proposed a foreign loan of 800 million gold marks, which they declared to be essential for the successful establishment of the new bank and to insure the stabilization of its currency.

Very wisely the plan of the experts is intended to be worked with a minimum of foreign control. There is to be a commissioner of the bank issue and half of the members of the General Board of the bank are to be foreign, the other half Germans. A Railway Commissioner is to be appointed to supervise and if need be control the management of German railways in the interests of the

Allies who are to be represented also in the railway board. The budget is to be supervised by a Chief Commissioner and under him a Subcommissioner for each of the five controlled revenues: (1) alcohol, (2) tobacco, (3) beer, (4) sugar, (5) customs. If the need arise, there is to be a commissioner of industrial debenture. The agent for reparation payments is suggested as the co-ordinating agency between the Reparations Commission and the various commissioners.

THE POLITICAL SIGNIFICANCE OF THE DAWES REPORT

In spite of the fact that the experts stated that the basis of their plan was business not politics, nevertheless, a few years hence, when we come to look back upon their work we are likely all to agree that the true significance of the report lay in its political usefulness. With regard to reparations the period of illusion had come to an end. Over the tangle European statesmen had reached a point of desperation; even the ministry in France had been brought by brute facts to recognize the necessity for a workable, negotiated peace, to promote the economic welfare of Europe and, therewith, that of France. The Dawes plan furnished the basis for discussion, and to the green table in London, at the invitation of the British Prime Minister, the representatives of France and Germany came to discuss their common difficulties, in the presence of the other representatives of the victorious alliance of the war days. The London conference was remarkable and significant chiefly because Germany was there treated as an equal, and was allowed to express her own views;² obviously, much had been learned since Versailles and Spa, where the Germans were told to sign on the dotted line. It was easier for the experts to draw up

² The work of the conference was well summarized at its closing session on August 16th, by Mr. MacDonald:

"I believe we have given Europe something better than an agreement drafted by lawyers and printed on paper—we all negotiated, discussed, put ourselves in each other's shoes. That is the greatest advance we have made, even when, in the end, one side or the other had been disappointed with the result. We are now offering the first really negotiated

their report than it was to get the interested governments to accept it and try to put it into effect. Reparation is, to be sure, a business matter, but it is also a political question; one that has made and unmade ministries—and may yet do so before we see the end of it.

To Premiers MacDonald and Herriot will go the chief credit for bringing about European appeasement. In giving effect to the Dawes plan they provided the first real truce since the war ended. When the historian looks back upon these troublesome days the London conference will mark the end of the post-war irrationality, and the first step toward a genuine settlement.

Will the Dawes plan work? Will Germany in the fifth year and thereafter be able to pay 2500 million gold marks per annum? It may be that the German budget, railways, and industry will be able to produce surplus revenue of this amount, but the greatest difficulty will be its transference to the allied countries. No such exchange operations have been attempted heretofore.

The payment of one billion dollars by France in 1871-1873 was a comparatively easy matter. One hundred and fifty million dollars were paid in gold and silver coin, in German bank notes, and currency collected in France. Three hundred million dollars of the indemnity was furnished by the surrender of foreign securities held by the French people, who received *rentes* in exchange for the bonds surrendered. The balance was paid by the creation of an exportable surplus. At that time European tariffs were low, and it was not difficult for France to increase her exports. Fortunately, Germany was then a free trade country. To get the funds required the French government issued internal loans, thus changing the debt from an external to an internal one. It is interesting to note that the *rentes* issued were still outstanding, when the war broke out in 1914.

agreement since the war; every party here represented is morally bound to do its best to carry it out, because it is not the result of an ultimatum. We have tried to meet each other as far as the public opinion of the various countries would allow us. The agreement may be regarded as the first Peace Treaty, because we sign it with a feeling that we have turned our backs on the terrible years of war and war mentality." *London Times*, August 18, 1924.

Fortunately, the Dawes report advises the payment of all sums to the reparations account in the bank of issue in the first place. Then the withdrawals from this deposit are to be made by the agent for reparation payments as directed by the Transfer Committee. The purpose of this provision is clear. The transfers are to be made according to Germany's real capacity to pay. Germany must have an exportable surplus equal to the reparation payments to be made. The report states the matter clearly and forcefully, "For the stability of a country's currency to be permanently maintained, not only must her budget be balanced but her earnings from abroad must be equal to the payments she must make abroad, including not only payments for goods she imports but sums paid in reparation. Nor can the balance of the budget itself be permanently maintained except on the same conditions. Loan operations may disguise the position or postpone its practical results, but they cannot alter it. If reparation can and must be provided by means of inclusion of an item in the budget, viz., by collection of taxes in excess of internal expenditure, it can only be paid abroad by means of an economic surplus in the country's activities."

In order that Germany should be able to pay 2500 million gold marks year after year, the world must be prepared to see Germany not only recover her commerce but undergo a positively brilliant commercial development. Professor Cassel, the eminent Swedish economist, has estimated that Germany will be able to pay only ten per cent of the value of her exports, for she must import heavily of food and raw materials for manufacture, and these things will always be a first charge upon her exports. Very little can be hoped for from invisible items in her balance of payments. She is rebuilding her merchant marine but only slowly in the face of keen competition. She has lost the greater part of her investments in foreign countries, and her pre-war commercial connections have been cut. The McKenna Committee estimated the total amount of German capital abroad of every kind to be less than 1700 million dollars. They pointed out that the only way to get this capital back is to stop inflation. If Germany is put on a sound currency basis this capital is likely to return, and the exodus

of further capital will stop, exactly what happened in Austria. Apparently the experts believed that the capital will do more good in Germany than abroad, for they did not suggest that it be used for the payment of reparations. Other invisible items are never a very large total, so we are safe to conclude that if Germany is to pay abroad each year 2500 million gold marks, she will have to do so out of her exports which means, according to Professor Cassel, that she will have to export goods to the value of 25,000 million gold marks and import to the value of 22,500 million gold marks. That would give Germany an international trade fifty per cent greater than that of the United States, and cannot possibly be accomplished within five years. Furthermore, Germany's economic requirements do not call for such an amount of imports, and other countries do not want Germany turned into the workshop of the World, importing materials to be manufactured into finished articles. The Dawes report avoids all political questions, but really they cannot be avoided. It would seem that the payments they stipulate will be possible only with a lowering of tariffs all over the world. However, the experts made no attempt to estimate the exchange position; they intended to leave that to experience, and in reality all that they proposed was to make the maximum transfer. What cannot be sent abroad is to be deposited and enter into the short money operations of the bank, to the extent of two billion gold marks. Beyond that point the money will be invested in bonds and loans in Germany, but not to exceed a total of five billions. If the accumulations exceed this amount, the payments will be reduced so that further accumulations will stop. If the German Government or any group engage in concerted financial manoeuvres to prevent transfers, the Committee may act to defeat such plans, and in that case the limit on accumulation may be suspended and the funds used to purchase any kind of property in Germany. As practical men the experts left the actual payments by Germany to the test of experience; the future will tell what Germany can actually pay.

The Dawes plan of payments rises from 1,000,000,000 gold marks the first year to 2,500,000,000 in the fifth or standard year. It is safe to say that before the fifth year the impossibility of

paying any such sum will be clearly seen. However, the Germans were well advised to accept the plan. In the first place the London agreement provided for the evacuation of the Ruhr within one year, and in the second place, even though the plan proves unworkable and Germany cannot make the required payments, the demonstration will be complete and even French and Belgian statesmen will be convinced of the futility of exacting such sums. Undoubtedly the foreign controls and the elaborate organization set up were contrived not as an agency of oppression, but for the purpose of demonstrating when the breakdown comes that the task of exacting the stipulated amounts is an inherently impossible one. It seems contrary to human nature to suppose that German industry will work at high efficiency and German workmen accept low living standards for the purpose of paying foreigners, and even were they to do so we doubt whether the industrialists and the workmen in the Allied countries would submit to such "economic invasion." Even in free trade England we shall find the present Conservative Government enacting a new safeguarding of industries act, if the need arise. In all probability Mr. Gilbert, Agent-General for Reparation Payments, will be able to demonstrate, long before the fifth year is reached, the impossibility of making the scheduled transfers.

REPARATIONS AND DEBTS

With the Dawes plan in operation, we may dismiss once and for all the suggestion that Germany pay for reparation and the Allied debts to the United States. Even at four per cent interest, compounded annually, 2500 million marks a year will not provide the capital sum required. At the lowest figure debts and reparations come to nearly 20 billions of dollars, and an annual payment of 595 million dollars at four per cent means a capital sum of less than 15 billions of dollars, if Germany were to pay forever, and no one is foolish enough to suggest making Germany's payments a perpetual annuity. In the face of such a situation as this, the insistence of our government that the Allies repay us does not seem just or even practical. But as there is at present no inclination

on the part of our people to favor an all around cancellation, let us consider the problem of debt repayment and its effects upon our trade and economic position generally.

That American industry on the whole would benefit greatly from the restoration of sound economic conditions in Europe no one who understands the economics of the situation can doubt. It would be of great help to our farmers and other exporters, as we saw above. Unless Europe's purchasing power is restored, there is little hope for permanent betterment in the conditions of agriculture and of those manufacturing industries whose productive power has so greatly expanded in recent years. If our government blocks a settlement of the pressing problem of inter-allied debts and reparations, it will be doing a grave injustice to our farmers and other exporters. In the end we should probably lose more than we should from a direct cancellation of the debts due us. From the standpoint of the country as a whole we should gain from a settlement of Europe's economic difficulties. This statement will not be disputed by those who have grasped the exchange nature of all profitable trade, which is never a one-sided thing, but a benefit to both parties. However, our official attitude, which reflects the opinion of the country, is that the Allies must repay us and that their debts to us are in no-wise connected with any other debts. In short we are taking our stand on the legal and technical nature of our associates' promises to pay. Assuming that we are going to be paid back, how will this be accomplished?

HOW THE ALLIES CAN PAY US

Great Britain can pay us with acceptable securities which she still holds, but none of the other Allies can. But the effect of Great Britain's turning back to us a further four and a half billions of securities would be to increase our position as a creditor country, thus making more necessary than ever that foreign countries create a surplus of exports over imports to us. We have the power to keep such a tariff as the Fordney-McCumber Act on the statute book and thus check the growth of foreign imports into this coun-

try, but by so doing we make inevitable the decrease of our exports and thus further hurt our farmers and other exporters. There is no escaping the fact that if we are going to be paid back, we must be prepared to face a decided change in our pre-war trade balance and to see our imports grow relatively to our exports. The unpalatable nature of this conclusion disturbed Mr. Hoover in his Toledo address. Speaking for the administration right after the enactment of the present tariff, Mr. Hoover felt that it was necessary for him to tell the country how we were going to be paid, seeing that we were bent upon keeping out competing imports. Naturally enough he fell back upon the "invisible" items in the trade balance. He would use the annual expenditures of American tourists abroad, the remittances of emigrants, the interest upon investments in America—all of which "combine to furnish a large supply of our money to Europe with which they in turn can make payments for interest on debts." Then he would use our triangular trade to secure non-competing tropical products which we require; "The shipment of European manufactured goods, of the sort that might compete in our home market, to the tropics, and in turn the shipment to us of tropical goods that will not interfere with our domestic manufacture or employment, is not only possible but is going on all the time. The products of the tropics—rubber, coffee, sugar, woods, etc.—are a type of goods which we cannot sufficiently produce. They, therefore, do not affect employment in the United States, and they are goods which are constantly increasing in ratio to our total imports. With "invisible" items and triangular trade Mr. Hoover solves the dilemma of getting paid back, while leaving American industry unharmed. But, does he? Let us see.

If the "invisible" items are used to pay the Allied debts to us, they cannot be used as they were in the pre-war days to finance American exports. Similarly, if our triangular trade is made the means of paying up the debts, it cannot also be made the means of financing exports. Take the example of coffee mentioned by Mr. Hoover. For the fiscal year ending June 30, 1923, we imported from Brazil coffee to the value of nearly 111 million dollars out of total imports from her amounting to more than 137 millions while

we exported goods to the value of more than 46 millions to her. Here is a balance of 91 million dollars available for the payment of the debts, "which will not affect employment in the United States"—perhaps? It is customary for us to pay Brazil with pounds sterling, which are always acceptable,³ seeing that Brazil has to pay for English manufactures which she imports. We get the pounds by drawing against shipments of wheat, automobiles, boots and shoes, etc., the things which we sell right along to England. If, however, Mr. Hoover's suggestions are acted upon, our imports of coffee from Brazil will be paid for by England who will be given credit on account for the value in dollars. Simple enough, indeed; but what happens to our exporters of wheat, automobiles, boots and shoes? Is it not clear that under the conditions they will lose part of their foreign market? The protected American manufacturer may be going merrily along behind our present tariff wall, and the payment of the debts may not affect his ability to keep his workmen employed, because our considerate government has decided to shift that burden to our farmers and other exporters. It thus turns out that Mr. Hoover's idea of being paid through triangular trade, which "will not interfere with our domestic manufacture or employment" is a delusion. He appears to have been so much concerned with answering those who contended that debt repayment and a high protective tariff were inconsistent policies that he ignored completely the effects of his proposals on our export trade. Our quarrel is not with what Mr. Hoover said; it is with what he left unsaid. His address was undoubtedly well received throughout the country, for it voiced the hopes of our manufacturers who want their tax burden lightened, while allaying their fears about the menace of imported goods. It thus had the ring of a spirited defense of Republican economic policy in its international aspect. But such a defense crumbles when exports are given due weight with imports. Stripped of unnecessary verbiage Mr. Hoover's proposals come to this: "We do not need to increase our imports of competitive goods to be paid back. We can keep our imports at the figure they are now. The Allies can get the

³ On triangular trade see Appendix A.

exportable surplus which they need by seeing that our exports to them are decreased sufficiently. It is not at all necessary for us to injure our home manufacturers to be paid back—we can let our farmers and other exporters bear that burden, through further losses of European markets.”⁴ Stated in that way no one can quarrel with the economics of the case; but the politics, that is a different matter—especially in the Mississippi Valley!

Mr. Hoover's views do not modify in any way the conclusions which we reached in Chapter III concerning the difficult position of American exporters as a result of the changed financial relationship of the United States and Europe brought about by the war. So long as we retain a tariff so high as the Fordney-McCumber, the European countries will only be able to repay us by getting along with a minimum of our goods. If we do not permit their imports into this country to rise sufficiently, they will create the exportable surplus necessary by cutting down on our exports to them. If solvent conditions are to prevail, the equilibrium of commerce must be restored. A creditor country that is being paid

⁴ This conclusion has been strengthened by the recently published preliminary study of the National Industrial Conference Board, *The Inter-Ally Debts and the United States*, and also by the theory of international payments expounded by Professor Frank D. Graham in the June (1925) number of the American Economic Review, in his article, *Germany's Capacity to Pay and the Reparation Plan*. The theory is substantially the same as that expounded above, pp. 15 and 16, the only change needed is to substitute “purchasing power” for “gold.” Suppose that in settlement of their debts, the Allies were to turn over to us the 600 million dollars which Germany is to pay in reparations, then by lowered taxation the purchasing power of the American people is raised by this amount, while the purchasing power of the Germans is correspondingly reduced, prices will rise in America and fall in Germany; American exports will decrease and German exports will increase, and thus in the end real payments will be effected by the shipment of goods. The reader interested in the theory will find it ably summarized by Mr. Virgil Jordan in his letter in the New Republic, August 19, 1925. Those interested in the effects of debt payment should also read in the same number Mr. George Soule's article, *Will the Farmers Pay?* I agree with Mr. Jordan that there are no purely economic reasons why the payments cannot be made; at the same time, I am more fully in agreement with Mr. Soule that such payments will work great hardship upon our farmers.

back must accept more goods from the outside world than she ships abroad, and if she will not permit an increase of imports, she must be willing to see a decrease of exports. Our world trade and the effects upon it must be envisaged as a whole. The suggestion that our use of tropical products, which Europe can pay for, is likely to increase so that it will be a good way in which to receive payment, does not alter the fact that such payment will come about at the expense of our export trade. Our willingness to make greater use of tropical products is the most important factor for an increase of our exports to Africa, South America, and Asia. As Africa and South America develop their vast territories, the opportunities for our manufacturers of agricultural machinery will increase; so too with old Asia as she takes on modern methods. But suppose these tropical products are paid for by the European countries; then where will the opportunities for the sale of agricultural machinery go? To Europe, of course?

THE ECONOMIC ADVANTAGES OF A GENERAL SETTLEMENT

If the United States cancels the debts of the Allies, for the sake of a general settlement of the troublesome questions of debts and reparations, she will have to make good this loss by taxation. That there will be loss cannot for a moment be doubted, provided the Allies can pay us. On the other hand, there are the compensations which we have pointed out, and we believe that in the end the cancellation will be justified upon economic grounds. This is not a question on which free traders and protectionists are going to disagree. The protectionist would be favorable to cancellation rather than admit competing imports, and would justify it on the grounds of keeping the home market for our own producer with all that it means in the way of employment for our own workingmen. But the free trader is just as much moved by the latter consideration as the protectionist. The main argument for free trade is not that goods can be got more cheaply; that is incidental to the policy which says that it is good for any country to keep its labor employed in the most efficient way, that production plus exchange is more economical than production alone. But

debt repayment is different. There is no exchange, no compensating exports to pay for the imports; the loss of employment is perfectly clear if the payment is made direct to us in competing goods, and, as we were at pains to show above, the loss of employment is equally clear if payment is made in an indirect way through the importation of non-competing products which the Allies pay for, because of the effects upon our export trade.

On the debt question the average American is shrewd enough to understand that if we cancel twelve billions of debts due us, we as a people will have to shoulder the burden ourselves, carrying it through higher taxation. As we Americans are human enough to dislike taxes, the proposal naturally does not appeal to us. But what most of our people do not understand is the ultimate effect upon our trade, which is sure to result from debt payment. When this is considered in connection with the weakness of our moral case for collection, our people will certainly change their attitude and be favorable to an all-around cancellation for the sake of a general settlement of all international indebtedness including reparations. Such an all-around settlement is necessary to put economic vitality into world trade which at the present time concerns us immensely. From the national standpoint we should gain more from restored active trade conditions than we should gain from any annual sums which we may receive. With cancellation the tax burden will be greater but a wise world settlement will increase even more our ability to carry it.

THE UNITY OF THE PROBLEM

From the end of the war until the negotiation of the Italian debt settlement during the present month (November, 1925) the official attitude of our government has been that the debts are a matter of business and that we expected them to be paid pretty much in full, and we referred to the British settlement as an example of the lenient terms which we were willing to give. President Coolidge was pledged by his party's platform not to consider cancellation, and just before the election, in his address to the United States Chamber of Commerce, re-affirmed his party's

position. While the Dawes plan was under consideration we tried to make it clear that the reparations settlement did not affect the Allied debts. In the words of Mr. Hoover, "The loans were individual to each nation. They have no relation to other nations or to other debts." Beginning with the Balfour note the position of Great Britain all along has been that Germany and the Allies must pay her enough to meet her bill to the United States, while the Curzon-Poincaré correspondence brought out the contention of the French that Germany must pay enough to cover the actual reparation expenditures and whatever France has to repay to Britain and ourselves. Belgium supported the French position. Italy, through Mussolini, declared that she would waive all claim to reparation provided the Allies cancelled her debts. The result has been that the United States has been regarded the world over as the one obstinate partner in the liquidation of post-war inter-governmental indebtedness.

To be sure, the American attitude and the French are far apart. We have taken our stand on the proposition that the debts are purely a matter of business. Mr. Hoover, speaking for the administration, in his address at Toledo declared that, "There is no question as to the moral or contractual obligation. The repudiation of these loans would undermine the whole fabric of international good faith. I do not believe any public official, either of the United States or any other country, could or should approve their cancellation. Certainly *I* do not." On the other hand, M. Clementel when French Minister of Finance spoke of the Allied debts as being "political," and in a different category from ordinary governmental debts. Like most Frenchmen he described the war loans as an important part of our war effort; we gave our millions at a time when we were not ready with our divisions.

European discussion in one respect has been unfair to us. The whole of the indebtedness was not "political." Of the original \$10,500,000 which we loaned to the Allies, \$650,000,000 were used by them to pay debts contracted with private bankers in this country prior to our entrance into the war. Furthermore, between the Armistice and July 1, 1919, we loaned the Allies about \$2,400,000,000. If we exclude these amounts as not being a sub-

stitute upon our part for war effort the "political" debts due us amount to nearly seven-tenths of our total claims. There remains about \$3,000,000,000 with regard to which the position taken by the United States is incontestable. About this part of the loans Mr. Hoover is clearly right. But, is he right with regard to the "political" and larger part? Is the matter so simple as he made it out to be?

THE INTERALLIED DEBTS AS A MORAL PROBLEM

No one who watched the development of the war temper in this country can doubt for a moment that by the summer of 1918 we were in the war to see it through to a victorious close. So far from being war weary, our effort was just beginning to get under way. If a military decision had not been won in the autumn, we should have carried on the struggle for another year or two if necessary, taking upon ourselves the main burden of the offensive. It is a matter of common knowledge that in the summer of 1918 we were bending all of our energies towards getting our armies in shape for the offensive of 1919 with which we hoped to end the war.⁵ That offensive we were not required to make. But it would have been necessary had we not made the loans we did to the Allies. It is all very well to speak of loaning our associates so much *money*; it is the customary way of speaking, the language of everyday life. But for an understanding of the morals of this question we shall have to deal with economic realities and get to the real meaning attached in this particular case to the ambiguous term *money*.⁶ What our government actually did was to place in the hands of our associates credits which they used in the purchase

⁵ Anyone who served in the army knew that the offensive of 1919 was uppermost in the minds of our military chiefs. The writer, from his experience in the Gas Defense Division of the Chemical Warfare Service, learned that our hope of terminating the war was placed in a great offensive which would start in the spring that year. Our energies from July (1918) onward were bent chiefly to the task of getting the new mask, which did away with the objectionable nose clip and mouthpiece, produced in sufficient quantity to equip our armies for that offensive.

⁶ Cf. what was said above, pp. 50 and 51.

of agricultural products and munitions of war. In short, our loans took the form of necessary military supplies to the Allies. Without these supplies, that is without our loans, victory could not have been won by November, 1918. Without the loans our associates would have been required to curtail their supplies from America. For more than two years and a half before we entered the war, they had financed their own purchases from us, but with increasing difficulty. They had sold in our markets the best American securities which they held, and their supply was giving out. Mr. Keynes, from his intimate personal knowledge of the position of the British Treasury, declared that without our loans the Allies could never have won the war.

If we had not made the loans, the Allies could not have made the offensive which ended the war in 1918. If we had not placed at their disposal liberal credits, they could not have purchased goods from us on the scale they did. Without these supplies, their armies could not have attained the strength they did in 1918. Without our food, France would have had to keep peasants at home instead of in her armies. The same is true of the British, but in a different way. Britain could not have fed herself no matter how great her exertions. But if she had been required to import food and pay for it, she would have also been required to keep her export industries running full force, and so in the end would have reduced the man power of her armies. The same considerations affect our huge shipments of munitions to the Allies. Had they been curtailed by our government's refusal to provide the indispensable credits, we should have forced our associates to provide all of their munitions themselves, and thus reduced the man power of their forces. Without the loans which our government made, the Allies would have been forced to remain on the defensive all through 1918, awaiting the full development of our power. We should have been called upon to make the great offensive in 1919 which we were preparing for. But the idea of our curtailing the supplies of our associates is preposterous. We never had a thought of doing so. Had our government dealt with the debt question in a realistic fashion, had they talked of loaning the Allies food supplies and munitions, our people would understand

the question better now and give more consideration to the perfectly good moral case of our associates in arms. Here is another instance where the use of the term *money* has led to confusion in our thinking, just as it always will, so long as we retain the word to mean the mechanism of exchange, while keeping in the back of our minds the fundamental notion of a thing of value.

It is, of course, perfectly sound for us to speak of our loans to the Allies, but we must remember that *the real loans were indispensable military supplies*. They formed one of the most important parts of our military effort. To speak of them as purely business transactions is to sweep out of mind their real meaning. *To demand now their repayment is to require our associates to indemnify us for a considerable part of our military effort in 1917 and 1918.* Naturally, the logical Frenchmen say that if we want indemnity, we should look to Germany for it. That is why with perfect courtesy and frankness they have informed the whole world that Germany will have to foot the bill, and that they will repay us when Germany turns over to them the wherewithal. They are honest enough, however, to exclude the goods they got from us after the Armistice, which the French bought and resold at a profit to the French Treasury. This small part of the total they admit is a commercial transaction. With this exception, those Americans who demand the repayment of the debts think it is a just and honorable thing for us to ask compensation for a large part of our contribution to the common cause in the war. Our people are too just and too generous for that. The Allied Debts have never been placed before them in their true light. We Americans are a commercially minded people, and when we make loans, we expect to be paid back. That is the simple, everyday ethics underlying the statement we quoted from Mr. Hoover. But the whole moral basis of his statement is undermined when we consider the exceptional circumstances under which the loans were made. They were not ordinary business transactions on the part of our government at all, but an effective contribution to the common victory. In normal times we should expect the Frenchmen to pay us for our wheat which they consume, but the case is far different when Kansas wheat means that the peasant Jacques

Bonhomme gives up his life on the St. Gobain plateau while Y. K. Doodle tills the soil in the valley of the Missouri. Both are making an indispensable effort in the common cause, and we should no more look to France for compensation for Doodle's wheat than we should expect France to look to us for compensation for Bonhomme's life.

When the morals of this great question are considered, people should not be sticklers for the legal technicalities of ordinary life. We should not insist on the contractual nature of the obligation assumed by the Allies. We did well to take their notes with interest from date. Such procedure was good business for all concerned. It guarded against extravagance and waste. But had the Allies not given us their notes, we should nevertheless have continued to give them their supplies, for to restrict their effort meant in the end a greater effort on our part. The 1919 offensive would have cost us enormously in men and money. Let us not overlook the fact that without the loans to our associates we should have counted our dead by the hundreds of thousands by the end of another year of war. This sobering thought makes remarks like Mr. Hoover's about the contractual nature of the obligation sound positively unseemly. However, absorption in business affairs has so hardened the heads of some of the most influential class in America that we shall do well to stress the business aspect of the loans. Another year of war would have meant the spending of a great deal more money than what we loaned the Allies. Their offensive, aided by that of our army, brought the war to an end unexpectedly soon, saved the lives of thousands of our young men, and what, from the point of view of those who understand the matter is of importance, saved us probably more money than the loans we made. Setting aside the idea of saving lives as a piece of sentimentality which finds no place in a well ordered balance sheet, we ought to emphasize, for the sake of the Bernicks and other pillars of society among us, that after all the loans to the Allies, by shortening the duration of the war, turned out to be a good business "proposition" for us. When this is added to the other considerations, the moral case for the cancellation of the "political" loans is complete. We simply cannot with good grace

accept repayment. This applies to Great Britain, who has been paying up, as much as it does to the other Allies.

A PRACTICAL SETTLEMENT

As we look back over the debt and reparation muddle which more than anything else has retarded the improvement of economic conditions since the war, we realize that there was only one way in which this great problem could have been settled speedily and with justice, and that was to lump together debts and reparations, and then present the total bill to Germany. Such a bill would have come to about 25 billions of dollars, and would have been beyond Germany's capacity to pay. Then with the Dawes report before them, the Allied governments in conference would have agreed upon percentages of the German payments. That such a settlement was not made was due to the position taken by our own government, which all along has insisted that there was no connection between reparation payments and the interallied debts.

The maximum payments under the Dawes plan will be 600 millions of dollars. Informed opinion seems to have settled upon a figure between 350 and 450 millions as the actual amount which Germany will be able to pay. Now had we continued to insist upon the kind of settlement which we made with Great Britain, then we alone would have absorbed more than all the payments made by Germany. Thus we see that all along our position in the matter has been preposterous. In this respect, though to a lesser degree, the British have not been unlike ourselves, for they propose to collect all they pay us from their European Allies. Perhaps if France and Italy were in our place they would act in the same way, all of which confirms the observation of the late Mr. Artemus Ward that there is a great deal of human nature in man.

When the Dawes plan was accepted Americans concluded that the period of illusion was over in Europe. Now that we have made an extremely liberal settlement with the Italians, Europeans have concluded that the period of illusion is now over with us. Such being the case, what is to hinder the calling by our government of a general conference upon debts and reparations?

The Italian settlement is a curious thing. It is so contrary to all that everyone in authority has hitherto said. The original principal of the Italian debt is \$1,648,000,000, and the accrued interest amounts to \$491,000,000, making a total of \$2,139,000,000. The settlement provides that Italy is to pay us \$5,000,000 each year for five years, then gradually larger sums, reaching \$38,000,000 in the thirty-fifth year, \$56,000,000 in the forty-sixth year, and \$80,000,000 in the final year. Obviously these terms are quite extraordinarily favorable. These annuities have a cash value of little over \$500,000,000—that is about twenty-five per cent of the total of the debt. This is quite a drop from our original position; we exacted seventy-six per cent from Great Britain. But the terms are really more favorable than they appear at first sight. The annuities are small during the first part of the sixty-two year period, and do not become onerous until after 1955. The maximum amount for the first thirty years is \$26,500,000 per annum, and the average is less than half that sum. The present cash value for the first thirty years is about \$200,000,000. Of course nothing has been said about cancellation and probably nothing will be. Perhaps most of our people will be pleased that our government has refused to consider cancellation, but every banker knows that we have cancelled seventy-five per cent of the debt, and it is altogether likely that the figure will prove higher with the passing of time. Of course, officially we have taken our stand upon the central idea of the Dawes plan, "capacity to pay." But this idea when applied to Germany is far different than when applied to Italy. France, aided by Great Britain, is in position to exact very heavy payments. With Italy it is not capacity to pay but willingness to pay which is the decisive factor. It is absurd to suppose that the Italian payments for the first thirty years represent Italy's capacity to pay. It is sheer nonsense to estimate Germany's capacity to pay at a figure thirty times greater than that of Italy.

The Italian settlement was a great surprise coming as it did about six weeks after we refused the French terms. M. Caillaux offered to settle upon this basis: \$40,000,000 for the first five years, \$60,000,000 for the next seven years, and \$100,000,000 for

the last fifty-six years. The present cash value of such a settlement is \$1,750,000,000, which is about forty-three per cent of the total French debt of \$4,100,000,000 with interest accrued. Our debt funding commission proposed terms which amounted to slightly less than seventy per cent of this total. The French commissioners attached a "security" or "safeguard" clause to their offer, stating that the schedule of payments would be revised if experience showed them to be beyond France's capacity to pay. From the American point of view such a clause was not acceptable, since it rendered the amounts to be paid uncertain.

American opinion as a whole was disappointed that some agreement was not made with M. Caillaux and his associates. French opinion as expressed in the leading newspapers was critical of Caillaux for offering too much. His loss of prestige was an important factor in the fall of the Painlevé government. Word came that France might have a radical socialist government with M. Leon Blum as premier. Immediately there was talk in European political circles of a bold capital levy to solve France's financial dilemma. This news was not at all pleasing to the dominant business interests in America. Then along came the Italian commission and the above settlement was reached.

Politics dictated the Italian settlement. The Italian commission came to this country with instructions from Premier Mussolini to get the best terms they could, but to sign any agreement they had to sign if the terms in first few years were lenient. Signor Mussolini's purpose was to strengthen his position in his own country, and our government was willing to accommodate him. He can now deal more generously with the domestic creditors of the Italian government, and the credit of his government in the New York and London money markets has been greatly improved. Now there is no good reason why we should not make a similar settlement with France. If our government is willing to make it easy for the Italian dictator, by all the traditions of our country, it should be still more willing to help the republican, constitutional government of France out of its serious financial difficulties. It is really of great importance to European liberties, and in the end to European order, that the republican, constitutional government

should survive in France, and so long as the ideals which gave birth to this country are alive, it will be an important object of American policy to sustain the kind of government which France now has. On the other hand, by the standard of those same ideals, we cannot approve the Fascist dictatorship. Nor will Italian opinion support it in the end. We make bold to say that it will not last as long as the Second Empire in France. And just as the Second Empire declined as the ideals of the great Revolution were reasserted, so will the Italian dictatorship go down before the reassertion of the ideals of Cavour and Mazzini.

It will be difficult in the face of the Italian settlement for us to refuse easy terms to France; certainly we shall not turn down again such an offer as Caillaux made. However, sentiment in this country has all along classed France with Great Britain in her ability to pay. But, as pointed out before, such is not the case; France draws no large income from the outside world like Britain, and very little from ourselves. Furthermore, France has been severely criticised for maintaining a large army, for building large numbers of airplanes and submarines, and for her campaigns in Syria and Morocco. Our people naturally feel that if France can pay for these things, she can pay back her debt to us in full. These things have weakened France's case. But, it is safe to say, France in our eyes will in the immediate future improve in all these respects. The Locarno pact will pave the way for a reduction of armaments by promoting the feeling of security, and recently M. Briand has announced changes in imperial policy which will ease matters in French protectorates and mandated areas.

Up until the Italian settlement, American Congressmen insisted that they were acting merely as trustees for the American people, and that they could not consider cancellation because the relief thus given to the Allied governments would have to be made good by the American taxpayer. But our Congressmen can ease their consciences about the burden upon our taxpayers by simply reflecting upon the effects of the "political" loans. They shortened the war, we repeat, and kept our tax bill lower than it would have become had the loans not been made in the first place.

THE COMING CONFERENCE

By 1930 the Dawes plan will have been in effect more than five years, and what Germany can pay will have been determined. It will no doubt be seen that Germany cannot make the payments required in the normal year, and this will bring up again the whole question of reparations and interallied debts. The United States should be represented in that conference. It is to our interest to help in the restoration of sound economic conditions throughout the world. By that time we shall be making the difficult readjustments in our trade balance which are sure to come when Europe has become stabilized and has ceased to borrow heavily from us.

Our debt settlements are spreading the payments out over a long series of years. Have we considered how unwise it is for us at the present day to lay up troublesome international problems for the future? The war is very close to us but it will not be to the generation that succeeds us. It looks all right on paper to spread our debt recoveries over long periods of years, but what will those who have to do the paying thirty or forty years from now think about it? No one can say what the people of the Allied countries will do forty years from now. External debts differ profoundly from internal debts in this respect; the money collected by taxes is paid over to foreigners, and the taxes make a real net reduction of the national income. It is, therefore, useless to argue from experience that governmental debts for wars have been contracted before and carried over long periods of years.

If our government is wise enough it will use its power of cancellation to strengthen all those agencies making for a genuine peace settlement in Europe. By 1930 we shall be able to judge of the effects of the security pact recently signed at Locarno. It is likely that we shall then be much less apprehensive with regard to the tendency of European politics, and shall be less afraid of the traditional bogey—entanglement. Furthermore, about that time the work of the Washington Conference will come up for revision,

as the ten-year period stipulated in the treaties will be drawing to a close. Why should not our government call a great conference to deal with all the outstanding questions of world economics and politics? By offering to cancel the "political" debts we could take the lead in the conference and reestablish our reputation for justice and generosity. We could cancel the remaining debts for vital political results. A willingness upon our part to cancel the debts would put us in a position of leadership in working out a genuine peace settlement. Certain positively dangerous clauses in the Treaty of Versailles must be revised. The one great weakness in all the agreements signed since the Treaty has been that the signatory governments have reserved all their "rights" under the Treaty of Versailles. The one essential requirement for peace in Europe has been the revision of that Treaty. The new Washington Conference can carry still farther the wise provisions of the London Conference (which put the Dawes plan into effect) for arbitration and judicial settlement. Ambassador, now Secretary of State, Kellogg was right in declaring at that conference that, "the greatest hope for the peace of the world lies in arbitration and judicial settlement between nations, and I am very glad this conference has contributed so much to forward this plan." Such a conference can at the same time deal with land and naval armaments. It should first of all go as far as possible in removing grievances and developing the sense of security. Its success in these respects will measure the length to which it will be able to go in securing a reduction of armaments. Finally the "Four Power Treaty" should be enlarged in scope, to cover generally the work of the conference, and should also have the adhesion of Germany and Italy. It is essential that there should be joint conference of all six powers to deal with any future dispute which cannot be settled by the ordinary methods of diplomacy. Such a treaty is an elementary safeguard against any single-handed, arbitrary action disturbing to future peace, and is particularly desirable so long as the United States remains outside the League of Nations.

OUR INTEREST IN EUROPEAN PEACE

The problem of reparations and interallied debts must be solved and Europe restored to normal peaceful conditions. If our people only knew it we have very good reason to work for a solution, and to make a genuine peace the condition of cancellation. The main danger with us is that our people generally are likely to feel that European conditions are really no concern of ours. A couple of years ago, on his return from Europe, Senator Hiram Johnson said, "Another bloody war in the making. I would prevent it if I could; but if that bloody war is no concern of ours and comes from causes of which we are no part, I would not send a single American soldier again across the sea." Now in his attitude towards world politics Senator Johnson is an honest reactionary; he is sincerely and no doubt, as he sees it, patriotically attached to our traditional policy, but is his reasoning sound?

Who can picture a bloody war in Europe that is no concern of ours? Before the last war we were not at all concerned with what was going on in Europe; but, when the war came, it somehow made itself our concern. What did we know or care about Bosnia? How much attention did we give to the Moroccan question and its effect upon European politics? What did we know of the intrigues of Holstein or the manœuvres of Bülow? How much were we concerned with Sazonoff's policy and the machinations of Isvolski? What did we know of the encouragement which Poincaré gave to the Russian imperialists when they were planning their forward policy in the Balkans? What did we know of Berchtold's reckless purpose? What did we know of Grey's entanglements? Is it not the plain truth that we got into the last war without being concerned in the events that led up to it? Now we have no assurance that we shall not get into another war under similar circumstances. The last war came from causes of which we were no part. We did not even know what those causes were. Yet, we found ourselves involved. We shall never again be so free from European entanglements as we thought we were in 1914. Never again will an American government be so

hesitant. The traditional spell is broken; American battles have been fought and won in Europe! Our people will stand for conscription! Our government can go as far as it likes in the suppression of anti-war opinion! If we did not learn these things from our recent *tour de force*, then we are incapable of learning from experience.

Will a more scientific war than the last be no concern of ours? Just think for a moment of the coming uses of airplanes and submarines, and the certain invasion of the rights of neutrals on an even greater scale than in the last war. Has there been such a change in the American spirit that our government will not again dare to assert itself? There is not the slightest reason to believe that our government will be as cautious as before, when we have a cherished tradition to maintain.

Finally, there are among us a great number of high-minded people to whom neutrality will always be unsportsmanlike; just as there were those in the last war who thought our neutrality was positively unseemly, and felt ill at ease in their consciences while we were inactive spectators. Different people have different reasons for going to war. Some are selfish and sordid; others are self-sacrificing and idealistic. It will not be difficult for great numbers of our people again to get it into their heads that God is calling upon us to battle for the right. It is asking too much of human nature to suppose that we shall sit silent spectators to another supreme tragedy. For a while we shall be puzzled; when our government puts us in the war, so far from being rebellious, we shall find a glorious emotional outlet in action.

How can a war in Europe come from "causes of which we are no part"? The next war will come from causes originating in the work of the Versailles Conference. It will come from situations we contributed decisively to create. Our intervention in the war made possible the dictated peace which lies at the bottom of the European uncertainty.

Our government owes it to our people as well as to humanity to do all within its power to prevent the coming of the next war. There is only one way by which we are certain to keep out of another great European war, and that is by making such a con-

flict impossible. Our present position as a great world power makes this the only safe conclusion. Our own peace and prosperity, in our modern, interdependent world, is so entangled with that of other nations that we cannot build safely for the future except in a world made safe for all nations.

CHAPTER VII

Economic Interdependence and Its Political Significance

So far our attention has been chiefly concentrated upon international economic problems. But in our last chapter we saw that economic problems lead inevitably to complicated political questions. Many times during the last presidential campaign Mr. Dawes declared that the plan which he and his associates contrived would restore sound economic conditions in Europe, from which America would benefit, because it was business and not politics. As a matter of fact European affairs at the present day permit no such divorce. Take the case of Great Britain. The British government is of necessity deeply involved in matters of business. Great Britain must import raw materials and food, manufacture and export the products of her industry, or starve. This necessity is the fundamental fact which controls her foreign policy. Her economic position determines her attitude on questions of world politics. The same is true of Germany and to a lesser degree of France. The United States too has reached that position to-day; and through the coming years our interest and participation in world politics will become more effective as our need of foreign markets brings home to our people the fact that our own prosperity requires sound and orderly political conditions, not only at home, but throughout the world. In very truth the appointment of Mr. Dawes and Mr. Young was not so "unofficial" as our traditionalists would have us believe. In his speech accepting the nomination for Vice-President, Mr. Dawes said, "President Coolidge and Secretary Hughes approved the invitation of the Allies to Americans to assist in the work. They not only approved this call of the Allies from distressed Europe that Americans assist in its time of great crisis, but gave specific

advice as to the men to be invited, thus giving them, in the eyes of Europe, as they had in fact, the background of the Stars and Stripes and the American people." And to show the folly of an isolationist policy Mr. Dawes further declared, "With the experts' plan inaugurated, France, England, Germany, Belgium and all Europe turn towards a new and a peaceful life, with hope and happiness, rather than despair, in their hearts and prosperity ahead. The United States will be saved from the depths of an inevitable and great depression in industry and agriculture, which the continued chaos and misery of Europe would entail." *If great depression in industry and agriculture* inside the United States can be caused by conditions in the outside world, then we are deeply concerned with what goes on abroad, and will be forced to play an active and determining part in world politics.

The dominant political ideas in our America of to-day are ideas carried over into our time from the Eighteenth Century, the Century of the Declaration of Independence, of the Constitution, and of Washington's Farewell Address. Since those days an economic transformation has occurred in the modern world, and that demands a transformation in our political ideas. The most significant political movement in modern history has been the creation of the national state. That political development, however, has not been extensive enough to keep pace with the concomitant economic development. The national economy of the Eighteenth Century has been complemented by the growth of a world economy.

THE GROWTH OF A WORLD ECONOMY

The farther we get away from the war days the more clearly we are beginning to see that the Great War marked the end of one era and the beginning of a new. August, 1914, marked the zenith of the nationalistic state; the culmination of the most significant movement in modern political history. In the second half of the Fifteenth Century with the release of the individual from medieval bonds there began the emergence of nationalities and national interests which grew by the time of the French

Revolution into the dominant political factor in Western Civilization, spreading with the ideas of the Revolution throughout Europe, unifying Italy and Germany in the Nineteenth Century and at the beginning of the Twentieth creating an insoluble problem for the ancient Empire of the Hapsburgs. On the eve of the war nationalism was the dynamic force in European politics, but unfortunately it was a force which ran directly counter to the economic development of the Nineteenth Century and after. The war brought about a tragic dislocation of European life because the prosperity of the European nations rested upon an economic system which was international and interdependent. Modern science, making easy and rapid, communication and transportation over national frontiers, had created in the small continent of Europe one great community, but it lacked political organization. The government of this area was divided up among some twenty nationalistic states, each asserting the right to sovereignty and independence and recognizing no law binding upon itself. Had European political development been as rapid as the economic development we should have seen the creation of the United States of Europe, and the growth of the idea of the "good European." Instead, on the eve of the war, Europe revealed two contrary tendencies, the economic life of the continent pulling the nations together, the political life pushing them apart. The economic structure which the European nations were erecting demanded a wider political organization than the spirit of nationalism would tolerate, and the failure to create that organization put the international life of Europe in a condition of anarchy, subject at any moment to a reign of violence—that is war. Naturally in an interdependent world victor and vanquished alike would emerge from such an ordeal with their economic life badly wrecked. In the light of this cruel but supreme fact in the outcome of the war, nationalism has lost its appeal of all-sufficiency, and the national state must, if mankind is to continue to progress, find its proper place in a wider political system, one capable of protecting the more extensive interests of the nation it serves.

The national state took its rise at a time when the nations were self-sufficient. The French political ideas of the Eighteenth

Century which found triumphant expression in the great Revolution were formulated, by a strange coincidence, at the very time the Industrial Revolution was getting under way. The latter half of the Century saw the beginning of the modern factory system, the rapid growth of cities, the improvement of roads, and all those developments which the economic historian sums up in the phrase "Industrial Revolution." The development is without question the most significant movement in recent history, for out of it and the system of relations which it has created have come the tremendous problems of to-day both national and international. About the time our American colonies were breaking away from the motherland there began in England that application of steam power to industry which has given us our modern industrial system, huge organizations of capital and labor and world-wide markets and along with them their attendant problems including the problem of war in its modern form.

All through the Nineteenth Century the Industrial Revolution was at work transforming the economic life of the nations and their relations to one another. Take the condition of Europe a century ago. Travel was slow and the intercourse between nations was difficult. Communication was as slow as travel; the stage-coach was the vehicle of both. No telephone, no telegraph bound the nations together. Industry was small; the factory system was in its beginnings. Each nation was self-sufficient and could subsist upon its own resources. With its intercourse limited, its markets small, the state seemed to coincide with society. No wonder Hegel could speak of the state as "the world the spirit has built for itself." But the use of steam and electricity has worked the mightiest revolution in human affairs that has so far taken place; only it has come so quietly and so persistently that unlike most revolutions it has not shaken us out of our old ways of thinking. It is the Industrial Revolution that has brought the civilized nations of the world in closer contact with each other than were our Thirteen Colonies a century and a half ago when they struggled for independence. It is the Industrial Revolution bringing with it the economic interdependence of the nations which has laid the economic foundations of a broad, international, political system.

The first significant result of the Industrial Revolution was increased productivity, and therewith, increased population. Nevertheless, down to the last quarter of the Nineteenth Century, the nations of Europe were on the whole self-subsistent. However, after 1870 the economic situation of the European nations changed in a way wholly unprecedented in history, for with the population increasing rapidly it became necessary for countries like Great Britain and Germany to import much of the food required for the sustenance of their people. From 1870 on the division of labor took a decidedly international aspect. Agriculture declined and manufacturing increased relatively. In Great Britain this development was particularly pronounced, so that at the outbreak of the Great War the point was reached where on an area of 120,000 square miles the British Isles supported a population of nearly 46,000,000. So great a population could be supported on so small an area only by the extensive development of modern industry. The position of England was analogous to that of a great city dependent upon the surrounding country for subsistence; only in her case the surrounding country was the whole world.

As population increased food was actually easier to procure. Manufacturing was more profitable in England than agriculture, and so she concentrated her energies upon it. The railroad and the steamship cheapened transportation, and from the virgin soils of the New World came cheap grain, and to the new lands in exchange went the factory products. And as capital rapidly accumulated it found profitable investment abroad, and so to the New World went more factory products, turned by the subtle processes of modern banking and exchange into the money for the financing of railroads and other enterprises. Until the outbreak of the Great War, British investment abroad, particularly in the United States, rendered easier the procurement of food and raw materials from the new lands. Her great accumulations of capital which the increased production of the Industrial Revolution made possible, and her large investments abroad put Great Britain in a peculiarly favorable position, for to her as a creditor nation in the way of interest payments would come the products of distant areas. To make her position more secure British investors fre-

quently reinvested their dividends abroad thus increasing the claim which Britain had upon the produce of the new countries.

England was the first great modern state to feel the full effects of the Industrial Revolution, but after 1870 a similar development took place within the newly created German Empire, and population increased from about 40,000,000 to nearly 70,000,000 on the eve of the Great War. In order to support so rapidly increasing a population, Germany had to transform herself from an agricultural and practically self-supporting country into a vast and complicated industrial machine. Her markets of necessity became greatly extended, and like Great Britain her economic well-being became more and more dependent upon the prosperity of lands beyond her borders. Like Great Britain too, in order to provide for her dense population it was necessary for Germany to keep her industrial machine running full force. After 1870 it became progressively clearer that the well-being of the Empire depended upon the growth of her international trade. It was only by the manufacture of a great variety of relatively cheap articles that Germany was able to keep her population fully employed and find the means for the purchase of subsistence from abroad. Like England she had moved from a position of economic independence to one of vital interdependence.

In the years from 1848 to the outbreak of our Civil War the emigration of Germans particularly to the United States was pronounced. In 1913 out of a doubled population less than 20,000 came to our shores, this in spite of the fact that the net annual increase of population was about 850,000. The industrial development of modern Germany had apparently solved the problem of the pressure of population within narrow confines. But it had solved it for the Germans in exactly the same way that it had solved it for the English, by binding their good up inextricably with the good of other nations. This was the fundamental fact of international politics in 1914, and never was a vital fact so tragically ignored!

The same industrial tendency so marked in the case of England and Germany was to a lesser degree true of the whole of Europe. In the case of the Austrian Empire the industrial development

of German Austria was extensive and free trade within the Empire furthered it. The population of the Empire before the war was increasing at the rate of half a million a year, but emigration cut it in two. France with a stationary population had not the pressing need for industrial expansion, and her people lived on an area large enough for the support of her lesser numbers. In this respect France was and is different from England and Germany. But foreign trade became extensive and profitable for France, and French finance was powerful in the international field, in fact ranking second to that of Great Britain; the foreign investments of the United Kingdom amounting to seventeen and a half billion dollars, while those of France and Germany were eight and six billions respectively.¹

The rapid increase of the population of Germany was exceeded by that of European Russia (including Poland and Finland) whose numbers rose from 100,000,000 in 1890 to about 150,000,000 in 1914. The net increase in the population of Russia in the year before the outbreak of the war had been estimated at two millions—a highly significant figure. At home it meant a serious struggle with the problem of poverty in spite of extensive territory. To take care of such a situation Russia needed to accumulate capital and develop her industries. Is it any wonder then that the war spelled revolution?

When we consider the rapid growth of European population in the half century before the war, we marvel at the remarkable development of the modern industrial system which made such a growth at all possible. Throughout the greater part of Europe the standard of living actually rose, and while there were notable evils that needed correction, on the whole the generation before the war were the best fed, clothed, and educated in the long record of European history. Moreover, a man with ability and character could rise without difficulty, for the industrial system wanted the efficiency of the able man no matter what class he came from. Popular education under public control became widely diffused. All kinds of schemes for social betterment were being discussed; some, like old-age pensions and workmen's insurance, had actually

¹ See Hobson, "Export of Capital."

been put into effect in Germany and Great Britain. Certainly the economists of the Eighteenth Century would have regarded the Europe of the Twentieth Century as an economic Utopia.

This economic transformation of modern Europe was a matter of the utmost significance in the economic development of America. As Europe turned more and more to manufacturing, and as her population increased, the demand for American farm produce grew to such proportions that Europe became the market for our agricultural surpluses, and the well-being of our farmers became bound up with the prosperity of the European centres of population. It followed that any violent dislocation of European conditions would result in a severe depression of American agriculture, and that such agricultural depression would make itself felt in American politics. This chain of cause and effect is particularly clear to any thinking man to-day, and it is idle to talk of political independence in an economically interdependent world. Political isolation under such conditions is impossible.

ECONOMIC INTERDEPENDENCE AND INTERNATIONAL ANARCHY

In the spring of 1914 people generally in Europe and America were not at all concerned about the economic system which they were creating while leaving untouched an obsolete and dangerously anarchic system of international relations. The growth of a world economy was so simple and so natural that it was taken for granted that with the passing of time this economy would continue to improve and in the nature of things grow more beneficial and more serviceable. Such was the optimistic fatalism which possessed the minds of all classes of society in the spring of 1914. When people talked of war they had no apprehension of the havoc which it would wreak upon our complicated and world-wide economic system. When we survey the opinions of statesmen and publicists in the ominous months preceding the catastrophe, we are amazed at the flippant and ignorant way in which they dealt with the prospect of a general European conflict. Here in America our minds were at ease in the illusion of isolation. In Europe, a

penetrating and discerning view of the prospect such as Mr. Norman Angell presented in his "Great Illusion" met with the contempt and derision of those in Europe who prided themselves on their realistic grasp of international politics, and yet their "realism" bore no relation to the facts of the international situation. *Economic interdependence*, bringing with it an unprecedented interlacing of common interests, should have profoundly modified the political relations of states to one another. But with the economic advance there was no such parallel political advance, and while economically the nations of Europe were all members of the same great society, yet on the political side they were members of different and antagonistic states. Our Western Civilization lacked a political organization as wide as the community it had developed, and the absence of such a co-ordinating influence to harmonize conflicting interests meant disaster when statesmen decided to settle their differences by the disruptive method of war. And, by one of those strange ironies which so forcibly impress the student who seeks the wisdom underlying the march of history, Europe possessed rulers who had no intelligent regard for the facts of her economic situation.

The politics European rulers knew and practised was the politics of power; their diplomacy was the diplomacy of intrigue and double dealing hidden by a veil of secrecy, the accepted politics and diplomacy of Europe for generations, a system understandable in the days of absolute and irresponsible monarchs but rendered obsolete by economic progress. Economic interdependence and militarism were to each other hostile conceptions of life and action, and yet by a strange blindness on the part of governments and peoples they were allowed to develop *pari passu*. It was an unfortunate blindness due to the reading of the history of a by-gone age which carried the conviction that economic strength was conditional upon military power, that the nation triumphant in war would be placed in a position of economic advantage, particularly if it emerged victorious over a highly industrial and commercial nation. Such was the prevalent view in Europe in the pre-war days; such was the view of the pan-German and of the pan-Slav, of the British, French, and Italian Imperialists. In the foreign

offices the truth of this view was regarded as axiomatic; it was one of the postulates of political *realism*. The war demonstrated once and for all the folly of such thinking. But the spectacle of people living in an economically interdependent world, and believing that war, the great destroyer of economic values and the wrecker of commercial processes, could be made profitable is one of those weird manifestations of human irrationality which gives pause to the generous soul who would fain believe in the possibility of progress.

The Europe of pre-war days was an anarchic Europe, wherein every national state claimed to be absolutely independent in matters political and subject to no law which it could not at any moment set aside. The scientific progress in the Nineteenth Century created an economically interdependent World, but the growing spirit of nationalism at the same time emphasized the political independence of the national state. While common interests were crossing national frontiers to an unprecedented degree and were requiring protection through wider political association, the vigorous nationalism of the day stood in the way of international organization to govern international relations by law. Each state claimed a sovereignty and independence which was absolute; practically this meant the exercise of the right to make war for any reason which seemed sufficient to the government of the state, the right to make war at will and to be answerable to no one. Concisely stated, such was the system of international relations prevailing in 1914, and this absence of political relationship and concomitant legal status may best be summed up in the phrase "international anarchy."

THE NEED OF WORLD ORGANIZATION

If the war revealed one thing, it was the folly of building an international economic system in a world lacking international organization. National prosperity is now so dependent upon world conditions that the statesmen of no country can build safely upon a calculation of what appears to be immediately national interests. The very best illustration of this is to be found within our own

country at the present time. Agricultural depression is the most disturbing element in American politics, and as we have already seen, that depression has grown out of post-war conditions. As a result of the war, the European market for our agricultural surpluses is a very poor one, but the American farmer has been forced to dump his surpluses abroad at prices which hardly cover his costs of production, and under highly competitive conditions he is forced to accept those prices in the home market as well. Without the war there would have been no "agrarian problem," no "agrarian radicalism" to disturb the complacency of our eastern conservatives, and to threaten the protective tariff policy so dear to the hearts of our New England manufacturers. Nevertheless, a short time ago the writer heard the editor of the journal that voices the mind of our New England Tories declare, in the course of an attack upon the League of Nations, that we must have no political connection with the European countries, that we should, however, have all the cultural and economic connections that it is possible for us to develop. He seemed all oblivious to the fact that such a development would, in some future crisis, put public sentiment and our economic well-being at the mercy of conditions entirely beyond our control. Anyone who can reason this way after the war is incapable of learning from experience. Anyone who supposes that it is possible to separate politics and economics in this fashion should study our situation to-day; he should try to think his way through our agrarian problem, and then ask himself in the face of recent experiences whether it is wise to base our prosperity upon an international economic system over which we are to exercise no political control? He would then understand that the familiar quotations which our editor friend read from Washington's Farewell Address are as obsolete as the stage-coach in which Washington travelled from New York to Philadelphia. Give us back the economic isolation and then you can talk about political isolation, not otherwise. If we are to have expanding foreign trade and our prosperity based thereon, we must also see that such trade takes place in a world subject to law. This means that we must organize the world politically; that all the nations must be brought within a general association wherein judicial proc-

ess, arbitration, conciliation, and conference will take the place of war. This is the only way out of the international anarchy; this is the next stage in political development; this is the logical outcome of a world-embracing economic system.

A thoroughgoing study of foreign trade leads logically and naturally to the difficult problem of world organization. It is idle to argue for an increase in national prosperity based upon the economies of foreign trade, great as they are, unless the danger of international war can be removed. The economic development of the United States has carried us to the point where our demand for foreign markets makes us vitally interested in the promotion of world peace. To come to an intelligent understanding of the peace problem we shall analyse the anarchical condition which prevailed in world politics prior to the outbreak of the Great War.

CHAPTER VIII

Imperialism, National Sovereignty, and War

As we saw in Chapter V, the European economic development in the Nineteenth Century gave a new impulse to imperialism. The ideas behind the seizure of African and Asiatic territory in the last two decades of the Century were (1) The desire to provide a new home for emigrants overseas, (2) to create a new market for manufactures, (3) to secure a valuable source of food and raw materials, (4) to gain places for the lucrative investment of capital. An economic imperialism of this nature might have worked, or at least not have caused disaster, under one condition and one condition only—if there had been only one imperialistic power in Europe! A Europe with a half dozen great powers all actuated by imperialistic motives could not play the game. The rivalries, hatreds, jealousies engendered, hastened the coming of the evil day when force was called in to settle the matter, even though in the process Europe herself should become completely unsettled. It will help us to come to an understanding of the most disturbing factor in world politics, if, bearing in mind what we have learned about the economics of imperialism, we now survey the world-wide struggle for empire and trade which the European countries engaged in for nearly half a century before the outbreak of the World War. Nothing did so much to create in the great powers the war mind as this imperialistic struggle. From the beginning of the partition of Africa conflicts arose, the most serious at first being those between Great Britain and France.

THE BRITISH AND FRENCH IN AFRICA

After 1871 France, defeated and humiliated on the continent of Europe, turned her attention to Africa with the determination

of retrieving there her fallen fortunes. Pushing out from Algeria, she soon annexed Tunis, penetrated the Sahara, and arrived in the Sudan only to find British power established there as well as in Egypt. The claims and counter-claims to the Sudan and other African territory make a long story, whose details lie beyond the scope of this work. France was opposed to permanent British occupation of Egypt; Britain retaliated by opposing French colonial ventures both in Africa and Asia. The French asserted that British opposition to their colonial policy was due to jealousy, but there was a deeper reason. The guiding principle of French colonial administration has ever been commercial monopoly, and British merchants feared naturally enough the loss of profitable trade through French expansion. The long rivalry of France and Britain lasted twenty years and culminated in the Fashoda affair. M. Debidour opens his narrative of the events leading up to this incident with these observations,

“England, who had long been in the world the first colonial power, had formed the habit of watching jealously the overseas policy of France, and was alarmed when we carried our flag and sought to establish our power both in Asia and Africa in the neighborhood of her own possessions. When she saw us so soon after our great disasters of 1870 and 1871, undertaking and carrying out systematically numerous conquests, which might permit us to rival her own power, she naturally made no attempt to hide her alarm and her displeasure. The stolid resistance which she maintained to us in Tonkin, in Madagascar, and in the interior of Africa during the last years of the Nineteenth Century, was one of the most singular elements in diplomatic history.”¹

The long series of boundary questions and frontier disputes were brought to a head by the Fashoda incident which brought Britain and France to the verge of war. In 1896 an expedition under Major Marchand set out from the French Congo for the Upper Nile. It was 1898 before he and his relatively weak force reached the Sudan, which the British took the precaution to declare annexed while he was on his way. After Kitchener had de-

¹ *Histoire Diplomatique de L'Europe*, vol. III, p. 67.

stroyed the power of the Dervishes at Omdurman, he came face to face with Marchand at Fashoda. The British thus presented the French with a *fait accompli* which the French understood. M. Hanotaux, who had talked too earnestly and emphatically about French "rights" in the Sudan, was succeeded at the Quai d'Orsay by M. Delcassé. Major Marchand marched out of Fashoda, quietly and ingloriously, while the French press assailed England with all the power of their wonderfully trenchant language.

THE SUGGESTED ANGLO-GERMAN ALLIANCE

Anglo-French rivalry was instinctive; opposition between these two powers was traditional; and it was intensified by difference in colonial trade policy. On the contrary, the attitude of Great Britain towards Germany in the early years of the new imperialism was not one of opposition. Lord Salisbury even went so far as to facilitate German expansion. The British government acquiesced in it in East and West Africa, in Samoa, Kiau-Chau, and even in Southwest Africa, though the British retained its natural harbor, Walfisch Bay. They were even so favorable to the Germans that they were willing to have them acquire the Portuguese possessions.² That was in the year of Fashoda, when anti-French feeling ran high. It lasted through the following year as evidenced by the columns of the *London Times* which are full of attacks upon France. The attitude of the British government was well expressed by the high-priest of imperialism, Mr. Joseph Chamberlain: "I may point out to you that, at bottom, the main character of the Teuton race differs very slightly indeed from the character of the Anglo-Saxon (*Cheers*), and the same sentiments which bring us into sympathy with the United States of America may be invoked to bring us into closer sympathy with the Empire of Germany." Mr. Chamberlain went on to advocate a new Triple Alliance of Great Britain, Germany and the United States.³ The British foreign office pursued a pro-German policy even in

² See "The Anglo-German Agreement," *Fortnightly Review*, October, 1898.

³ See *The Times*, December 1, 1899.

the unpopular Venezuelan affair (1902), and in the early stages of the negotiations concerning the Bagdad Railway. It acted in concert with Germany in the matter of the abortive Chinese Treaty. Since the Boer War had taught the Britons that their isolation was more splendid than safe, they naturally looked to the Germans for an alliance, which the Germans offered in October, 1901. The alliance was to provide for a mutual guarantee of all British and German possessions, except in the Far-East.⁴ But the German exception of the Far-East made the proposal unacceptable to Great Britain, whose chief concern, in those days, was with the growing power of Russia. To Lord Lansdowne, an alliance which offered no protection against Russian expansion in Asia, particularly in the direction of India, was not worth having, and so he looked to the Japanese with whom he concluded an alliance in the following year. The refusal of the German government in 1901 to enter upon an alliance which might involve it in a war with Russia is easily understood. It took the war with Japan to reveal the military inefficiency of the Russian forces. But, if this Anglo-Saxon alliance had been consummated, the whole trend of recent world history would have been changed.⁵

SEA POWER AND TRADE

Britain's failure to come to terms with Germany left the way open for the *entente* with France. In spite of the lesson of the Boer War, the traditionally minded Briton had great difficulty bringing himself around to see the desirability of an understanding with the French. The signing of *l'Entente Cordiale* in April, 1904, was preceded by a revolution in British sentiment. What worked so great a revolution? The refusal of the German government to enter upon an alliance which might involve it in a war with Russia? The pro-French leaning of King Edward and his

⁴ This is authoritatively stated by Sir Valentine Chirol in the *Quarterly Review*, October, 1914, who writes with full personal knowledge of the facts.

⁵ For a good account, by a keen observer, of Chamberlain's moves and the German attitude, see Eckardstein, *Erinnerungen*.

court? The anti-German feeling in certain British commercial circles? Some English publicists have found the answer in one or all of these considerations, but even when taken together they give an insufficient reason. The more the sentiment leading to the formation of the *entente* is studied, the more it is seen that the one cause, which alone was adequate to produce it, and without which all other explanations are insufficient, was the growth of German sea power. Bismarck, who more than any other statesman of his day had a realistic grasp of the politics of Europe, understood perfectly that Anglo-German friendship could not be maintained, were Germany to question the supremacy of Great Britain on the sea. But to the Pan-German imperialists who demanded overseas expansion and a greater place in the sun, Bismarck's views were *passé*. They believed with the Kaiser that, "Empire means sea power, and sea power means empire."

In the last decade of the Nineteenth Century one clear and indisputable fact dominated the minds of the German imperialists and the industrial and commercial circles whose interests they professed to uphold, the plain fact that the nation which possessed the indisputable mastery of the seas could control or prevent the expansion of any other people. In short British naval power could veto the expansion of any continental rival. Under such circumstances there were only two alternatives for the Germans, either attempt to outbuild the British, or come to an understanding with them. The proposed alliance of 1901 was based upon the latter alternative. Undoubtedly it was the safer policy. But in Germany the big navy party was strongly opposed to it, their contention being that expansion with Britain's permission and with her aid would mean in practice that Germany would receive what England was pleased to assign her, or, as Dr. Naumann put it; Germany would be given the position of the "junior partner in the British world firm," a part not at all congenial to the Prussian temperament. Not only that but the series of speeches in which Mr. Chamberlain invited Germany and ourselves to form with Great Britain a Pan-Terrestrial alliance were full of menace and ill-will towards France and Russia. Now before the Russian defeats at the hands of the Japanese no thoughtful German would for

a moment consider the purchasing of Great Britain's good will at the price of a policy of certain hostility to Russia, a policy which might in the end lead to war. So after 1901 the only alternative left to the Germans was to build a fleet and make their own way in the world. October, 1901, therefore, marks clearly the turning point in the relations of England and Germany. Mr. Chamberlain's attack upon German policy, at Edinburgh, fixes definitely the moment of change in British sentiment. Naturally enough Englishmen characterized the failure of the alliance as due to the aggressive designs of the Germans. Their immediate reaction was fear for their own safety and safety of their empire.

THE FORMATION OF THE ENTENTES

Fortunately for France, the impertinent M. Hanotaux, who took special delight in reminding the British at awkward moments of their promises to get out of Egypt and the Sudan, was succeeded by M. Delcassé, whose first task was to get France out from under the Fashoda Crisis. This he did by what many compatriots stigmatized as too large surrenders of their "legitimate aspirations" in the Nile Valley. However, the British press was quick to note these sweeping concessions to the "perfectly proper British point of view," and Britons came to see that at last France had a "reasonable" foreign minister. The sudden *volte-face* of the London *Times* epitomized the changing views of the country. With Fashoda out of the way, M. Delcassé took time to study the European situation, even making what for a Frenchman was a heroic effort to keep an open mind towards Germany. By 1901 the diplomatic education of Delcassé seems to have been completed. He came back from his trip to St. Petersburg with the conviction that Russian power was insufficient for French security. About this time he reached the conclusion that German designs were aggressive, and would lead inevitably to war. It behooved France then to make friends. It was imperative that she should come to an understanding with Italy and Great Britain.

France had invaded and annexed Tunis in 1881, and thereby earned the bitter animosity of the Italians who had picked out this

African territory as a legitimate sphere of influence for themselves. Italy replied by acceding to the Triple Alliance in the following year. When M. Delcassé took office, the bitterness had been accentuated by a tariff war in which each country proceeded to hurt the other to their mutual disadvantage. M. Delcassé determined to smooth out this standing quarrel, and with rare diplomatic skill won over the Italian Foreign Office to the desirability of a reciprocal understanding. In the summer of 1902, he signed with the Italians the first of his *ententes*. As given to the world, it was the statement of a friendly understanding, the declaration of a desire on the part of both countries to live on cordial, neighborly terms with each other, all of which seemed highly laudable to those who did not know the workings of the European system. But Italy was a member of the Triple Alliance, and in reaching this new agreement had consulted her own interests only.

Naturally, the *entente* caused considerable commotion in Germany. Nevertheless, the German government pretended officially not to be disturbed by it, the Chancellor, Bülow, characterizing it as a harmless flirtation—*un tour de valse*. However, close students of European politics, and they were as discerning in Germany as elsewhere, saw in this agreement a decided change in the European situation. An agreement reached independently by a partner in a formal alliance, was something new in diplomacy. Clearly Italy's position in the European system was doubtful, and it became positively enigmatic when M. Delcassé told the world what the *entente* meant to him. Speaking in the Chamber of Deputies on July 3, 1902 he declared openly, "In no case and under no form will Italy become an accomplice or the instrument of an aggression against our country." In the early days of August, 1914, all doubt as to the meaning of the *entente* was removed, when Italy refused to join her partners in the Triple Alliance in what she termed a war of aggression.

After 1901 circumstances were making for an understanding between France and Great Britain. The Boer War had taught the British that isolation was more splendid than prudent. Fashoda had taught the French that war with Great Britain over African

ambitions would be foolhardy in the face of the growing German menace. Furthermore, the projected naval programme of the Germans meant that sooner or later British sea power would have to be concentrated in the North Sea. It would be well then for Britain to come to an agreement with France regarding the distribution of their naval strength. These were the considerations which led to the signing of *l'Entente Cordiale* on April 8, 1904. Naturally, the understanding concerned the colonial world, Africa in particular. To put it briefly, the Newfoundland Fisheries question was settled, and France gave England a free hand in Egypt in return for a free hand in Morocco. Each promised the other "diplomatic" support in case any outside power interfered with the "rights" of either in these territories. For twenty years the only cause of friction between France and Great Britain lay in the clashing of imperial interests in Africa, and the *entente* effectively removed this danger. Who was its principal author? King Edward? Lord Lansdowne? M. Delcassé? Will not impartial history give credit to whom credit is due, to Admiral Von Tirpitz and the German Navy League?

THE STRUGGLE FOR MOROCCO

In the politics preceding the war, the *entente* plays a vital part through its arrangements with regard to Morocco. In the making of those arrangements Germany was not consulted. Neither was Morocco, though it was nominally an independent, sovereign state. In Pan-German circles there was naturally enough a noisy outcry. Why should there not be? If Morocco were valuable to France, it was even more valuable to Germany with its greater and more rapidly increasing population, and its very much poorer and smaller colonial field. The Chancellor, von Bülow, took a sensible view of the matter, and in his address to the Reichstag on April 12, 1904—four days later the *entente* was signed—declared that Articles II and IV were such that, "We have from the point of view of German interests, nothing to object to." The former article contained this explicit statement, "The government of the French Republic declare that they have no intention of altering the politi-

cal status of Morocco," while the latter announced that, "The two governments, being equally attached to the principle of commercial liberty both in Egypt and Morocco, declare that they will not, in these countries, countenance any inequality either in the impositions of customs duties or other taxes, or of railroad transport charges." The German chancellor accepted the published *entente* at its face value, but by way of warning pointed out that, "We have there above all else commercial interests. We ought to protect them and we will. We have no reason to believe that they will be either ignored or troubled." Of course, every experienced diplomat in Europe was at this time trying to conjecture what secret clauses there were to the agreement and while this guesswork was going on, von Bülow, like any statesman skilled in the European game, took the precaution to declare with unequivocal directness where Germany stood in the matter.

Nearly a year passed (March 31, 1905), Europe was apparently tranquil with the great events in the Far-East holding attention; Morocco, seemingly, had disappeared from view. Suddenly the Kaiser's yacht, the Hohenzollern, put into the harbor of Tangier. His Majesty stepped ashore, and addressed these words to the Sultan,

"It is to the Sultan, in his capacity of an independent sovereign, that I make my visit to-day. I hope that under his sovereignty an independent Morocco will remain open to the peaceful competition of all nations, without monopoly or annexation, on a footing of absolute equality. My visit to Tangier has had for its object to make known that I am decided to do my utmost to safeguard efficaciously the interests of Germany in Morocco. Since I consider the Sultan an absolutely independent sovereign, it is with him that I wish to reach an understanding on the necessary means to protect these interests. As to the reforms which the Sultan is considering, it seems to me advisable to proceed with great caution, taking into consideration the religious sentiments of the population to the end that public order may not be disturbed." (Version of the French Chargé.)

The speech was a veto on what every informed person understood to be French purpose in Morocco, the establishment of a

protectorate and the acquisition of all profitable concessions in the future. It was clear that Germany was not going to submit to the loss of this African territory without a struggle. Why did the Kaiser speak so bluntly and emphatically? It was due to German knowledge of the Anglo-French and Franco-Spanish secret treaties of the previous year. On April 8, 1904, in addition to the published *entente* Lord Lansdowne and M. Paul Cambon signed a secret annex whose third article provided, in certain eventualities, for the partition of the country, the Mediterranean coast from Melilla to the Sebu river to be placed under the administration of Spain, the balance going to France. In September, when Spain adhered to the Anglo-French declaration a convention was signed which clearly contemplated partition. Though the two treaties were secret and not revealed till 1911, there were many persons in London, Madrid, and Paris who knew their contents which were also communicated to St. Petersburg, and it came to pass that their provisions were known quickly at Berlin.⁶ The German government decided to force the issue into the open. Russian defeats at the hands of the Japanese, and the growing unrest in Russia, led Bülow and Holstein to feel safe in acting in a decisive manner. To make certain that Morocco in particular, and the acquisition of all unappropriated territory after the establishment of this precedent, should be regarded as a matter of general concern, the German government insisted that a general conference of the powers be called to determine the status of Morocco. This demand was exceedingly distasteful to the French, as it appeared to be hauling them before a European court, but they were willing to deal with the Germans alone, and hinted plainly that they were willing to make concessions. To placate the Germans, M. Delcassé had to resign. Still Germany demanded the conference; the crisis was severe, and under threat of war France yielded. The diplomatists assembled at the little Spanish town of Algeciras, went through the pretence of re-affirming the independence and the integrity of Morocco, and of giving lip-service to the open-door principle.

⁶ See Valentin, *Deutschlands Aussenpolitik*, p. 34.

The conference over, France, disregarding the spirit of its decisions, set about promptly and efficaciously to make the partition of Morocco inevitable, in accordance with the secret Franco-Spanish Treaty and the "secret annex" of the *entente*. In the short space of five years she succeeded in this policy which could have no other effect than to produce a crisis, for the German government had time and again given due warning, insisting upon political independence and economic equality, a position incontestably correct, resting as it did upon the public law of Europe as written into the *Acte d'Algesiras*.

When the French and German governments in 1909 reached their accord with regard to commercial opportunity in Morocco, it was thought that all danger in that quarter was removed. But in practice it was found that the accord did not work. Among other things, the two parties could not agree with regard to the newly projected railways. The French for strategic and economic reasons wanted to link up these roads with their lines already built in Algeria. For equally good strategic and trade reasons, the Germans wanted these railways to terminate in Moorish ports, and they insisted that the first line to be completed should be that from Fez to Tangier. This was only one of several projects where common action was impeded by mutual distrust. From the way the French temporized, delayed and postponed decisions,⁷ it would appear that they were waiting until they had sufficiently strengthened their position in Morocco, so that they could act alone. Meantime things were coming to a head. France had been given the right to maintain order, and on the plea that European residents were endangered, dispatched in April, 1911, an expedition to the capital, Fez. When the French troops had settled down apparently to stay, German patience was at an end. By way of protest the German warship *Panther* put into the port of Agadir on July 1, 1911. Europe trembled on the verge of war. Mr. Lloyd George in a vigorous speech at the Mansion House, declared with a menacing and dramatic publicity, which equaled the Kaiser at his best, that Great Britain was ready to go to war to prevent

⁷ See Bourdon, *L'Enigme Allemande*, Chapter II. An honest account based upon French official records.

the Germans obtaining Morocco. Tension was high all through the summer; at last, Germany gave way, recognized the French protectorate in Morocco, and received by way of compensation a goodly though tropically unhealthy slice of the French Congo.

Most certainly the Pan-Germanists wished to make Morocco, in whole or in part, a German colony, but there is no evidence that the German government ever went beyond a demand for the maintenance of the open-door and Moroccan independence. Their position was like our attitude toward China. It is strange how British and French newspapers assumed that their countries had the right to dispose of Morocco without consulting the other powers of Europe. But it is clear that the Moroccan clauses of the *entente* were written on this assumption. In 1906 France was very reluctant to admit that the question was a matter for conference. Yet, if we look at the subject in an impartial way, we are forced to admit that from the point of view of economic justice, Germany's claim to Morocco was much the better. The territory was valuable for two reasons. In the first place it was one of the few spots, still unappropriated, which are suitable for white colonization; secondly, it is rich in iron ore. France, with a stationary population, already possessed in Algeria and Tunis two such colonies, while Germany, with a yearly increase in population of about eight hundred thousand, had none. France exported iron ore, Germany imported it. For Europe as a whole, German occupation was preferable, seeing that Germany in her possessions maintained a free trade policy and welcomed foreign merchants, while French colonial administration aimed at commercial monopoly. England never would have supported France, had it not been for the German naval menace. Once Germany challenged her sea power, and therewith, her security, it was certain that Great Britain would not permit her to obtain a foothold on the coast of northwest Africa.

We in America never realized the far-reaching consequences of this struggle for Morocco. It produced intense bitterness of feeling in Germany, and strengthened there the position of those who held that war was inevitable. Thus Baron Beyens, the Belgian Minister at Berlin, summed up the situation in these words:

"The Moroccan conflicts made many Germans hitherto pacific regard another war as a necessary evil."⁸ Furthermore: "The peaceful settlement of the conflict of 1911 gave a violent impulse to the war party in Germany, to the propaganda of the Defence League and the Navy League, and a greater force to their demands. To their dreams of hegemony and domination, they added, with bitterness, desire for revenge against France. A diplomatic success secured in a hidden contest meant nothing. War, open warfare, that alone in the eyes of this rancorous tribe, could settle definitely the Moroccan question by bringing Morocco and all French Africa within the colonial empire they wished to build on the shores of the Mediterranean and in the heart of the Dark Continent."⁹

This was the attitude of the Pan-Germans, but with the people as a whole, there was a general desire for peace. The same competent observer has this also to say:

"Peace was essential to business, and German finance in particular had every reason for the maintenance of its profitable relations with French finance. After a few months I got the impression that these pacifists personified then (1912) the most common, the most widely spread, though the least noisy, opinion, that of the majority, meaning by the majority not the governing classes, but the nation as a whole."¹⁰

All through the crisis of 1911, the attitude of the Liberal Press in Great Britain had been uneasy and critical. The Liberal Government knew this, and upon second thought Mr. Asquith and his colleagues realized the danger of carrying to extremes their opposition to Germany. The British Government, therefore, decided to try to come to an understanding with the Germans. This change in British diplomacy was inspired by Lord Haldane, a man who knew the working of the German mind, with the result that before the outbreak of the war real good-will was established between the two governments. The British Foreign Minister, Sir Edward (now Lord) Grey, backed Lord Haldane completely in

⁸ *L'Allemagne Avant la Guerre*, p. 216.

⁹ *Ibid.*, p. 235.

¹⁰ *Ibid.*, p. 172.

his efforts to reach a working agreement with the Germans. Chancellor von Bethmann-Hollweg, and the German Ambassador at London, Prince Lichnowsky, met the efforts of Lord Haldane and Sir Edward Grey in the same friendly spirit which the latter had displayed, so that by the end of 1912 it looked as though all danger of conflict between Germany and England was in the process of being removed. The *rapprochement* followed British willingness to grant concessions in Asia Minor and Mesopotamia, in the region served by the Bagdad Railway. In the months immediately preceding the outbreak of the war, British policy swung around to the point of view expressed by Sir Harry Johnston, in his *Commonsense in Foreign Policy*, in which he argued that the Germans should be encouraged in this venture, for there was enough work for the Germans to do in the Near East to absorb their surplus energy for a century or more. Given such an outlet, the danger to the peace of Europe from German aggression would be greatly reduced.

GERMANY AND TURKEY—THE BAGDAD RAILWAY

The Bagdad Railway was not in the first place a German scheme. Naturally enough the idea originated with Anglo-Indian engineers, who planned a line from Alexandretta through Bagdad to Basra by an easy desert route. Thus a quick way from the Mediterranean to the Persian Gulf would be established. The Turks welcomed the scheme. A commission of the British Parliament went so far as to report favorably upon it. But, while much could be said for the project from the strategic point of view, still the territory it would serve made capital hesitant, for it was hard to see how the investment could be made a profitable one. When the British occupied Egypt, the matter was dropped, for with the control of the Suez Canal assured, the British road to India seemed secure, and no alternative one was required. The occupation of Egypt also cooled Anglo-Turkish friendship, and made the Turks hesitant about granting concessions to the British. Not only that, but the Turks, while glad to get the road from

Alexandretta to Basra, really wanted it to run from Constantinople to Bagdad.

To the Turks, the railway was primarily an administrative and military necessity. Some of the provinces to be served by it were in a state of primitive anarchy, being more or less isolated and remote from the central government. Railroad accessibility would end this. But of even more importance from the Turkish point of view was the shortening of time for mobilization, which would add enormously to the military power of Turkey. For decades to come there was not much hope that the railway would prove profitable as a commercial enterprise. When the terms of construction were finally agreed upon, the Germans were able to drive a hard bargain, the Turks agreeing to a system of subsidized profits, under a kilometric guarantee. The concession was such, that, while the railroad might never pay its way, the promoters were assured a rich return for every mile of track they laid down.

The concession for "Die Bagdadbahn" was granted in 1899, the *firman* constituting the company was issued in 1903. This was the period of the Boer War, the time when Anglo-German friendship began to cool. Now the same strategic reasons which made the British consider seriously the building of the railway made them look with disfavor upon the German enterprise.¹¹ Since the concession gave to the Germans the right to maintain forces to protect their property from the Bedawi bandits, it was feared that in the course of time this might serve as an excuse for the establishment of a dangerous military power not far from the confines of India. Plainly the German approach to the Persian Gulf was not welcomed and the British naturally took steps to counter it. While German engineers were surveying the proposed route, the British sent Colonel Meade to arrange with Sheik Mo-

¹¹ Mr. Edward Mead Earle in his penetrating study, *Turkey, the Great Powers, and the Bagdad Railway*, explains how the German promoters, after they had received their charter in 1903, set about organizing an international banking syndicate to finance the enterprise but this co-operative project was frustrated by the conservative and imperialist press of London, Petrograd, and Paris, which inflamed patriotic passion against the Germans.

barek of Koweit for a protectorate over his little principality, which contained the logical harbor for a terminal on the Gulf. When the German mission arrived the following year, they learned from the Sheik that they were too late. Furthermore, just as the German threat to British naval supremacy led to the formation of the *entente* with France, so the German threat to India led to the British accord with Russia concerning "spheres of influence" in Persia.

Unfortunately for Anglo-German relations and the peace of Europe the actual building of the Bagdad Railway was commenced about the time when the Moroccan question was beginning to cause serious tension. The ill-feeling which existed between Britain and Germany from 1904 to 1911 was reflected in British opposition to German purposes along the line of the railway, and in the territory which it would eventually serve. But, after the Crisis of 1911, British statesmen came to the conclusion that they had been pursuing towards Germany a positively dangerous policy of restriction. From the end of 1911 to the outbreak of the war, Sir Edward Grey and his colleagues reverted to the policy of Lord Salisbury, and just as the latter facilitated the acquisition of the German African colonies, so they determined to reach an agreement with the Germans regarding Asia Minor and Mesopotamia. The result was that, on the eve of the war, Sir Edward Grey had all but completed a treaty which granted the claim of the Germans for the chief share in the development of Turkey's Asiatic possessions. This treaty meant the end of a decade of jealous bickering; the British withdrew all opposition to the Bagdad Railway and the projected developments in the interior, while the Germans on their part allowed the British to take measures for the security of their interests on the Persian Gulf. Sir Edward Grey met German wishes so wholeheartedly, and with such evident purpose of conciliation, that he refused to demand concessions for British subjects in Turkey, as the price of withdrawal of British competition.¹² Not since Lord Salisbury's day were

¹² See his speech in the House of Commons on July 10th, 1914.

Anglo-German diplomatic relations so cordial as they were in the early summer of 1914. The mighty struggle which ensued for the mastery of the Near East, arose, not out of the Anglo-German rivalry, but from the conflict of German and Russian ambitions.

In the years preceding the war, Germany came to hold a position with respect to Turkey similar to that which Great Britain held before she acquired the Suez Canal and occupied Egypt. Like England before her, Germany was forced, because of her designs, to become the protector of Turkey. The risks were great, but the Germans figured that in the end they would profit enormously from the exploitation of the undeveloped resources of the Turkish Empire. The territory was one of the few lands left which were fit for white colonization. Furthermore, the building of the "Bagdadbahn" was only one of many schemes which included a monopoly of the rich oil wells of Mesopotamia, large scale agricultural and horticultural projects, made possible by extensive irrigation plans; not only that but there were mines to dig, harbors to be developed and equipped, no end of enterprises in a country where Germans could live and prosper. When she came to an understanding with Great Britain in the early summer of 1914, Germany was headed toward making the greater part of Turkey her "economic sphere." Thanks to her diplomatists, especially Baron Marschall von Bieberstein, her political influence at Constantinople was supreme. The modern combination of economics and politics was working splendidly for the German imperialists in the Turkish Empire, and they naturally contemplated sooner or later absorbing it whole.

RUSSIA AND THE STRAITS

Since the days of Peter the Great, statesmen and soldiers who served the Tsars looked upon the acquisition of Constantinople as the "manifest destiny" of the Russian Empire. They looked upon this conquest as the supreme object of imperial policy. When Russia had acquired the Caucasian and the European shores

of the Black Sea, the ambition to control the Straits leading to the Ægean became the great object of the Russian foreign office, resting as it did on what all educated Russians understood to be vital economic and strategic considerations, for the power which controlled the Straits could at will make the Black Sea to all intents and purposes an inland lake. Russia has always had the great problem of ice-free ports on her hands, the solution of which sent her to Port Arthur, and to war with Japan. Ten years later it was to direct her to Constantinople, and to war with Germany.

A long series of wars with Turkey had brought Russia near to the attainment of her great ambition. Her chief opponent, however, had always been that European power which backed the Turks. For years it was Great Britain, who with France, in the Crimean War, maintained the integrity of the Turkish Empire. In 1878, when the Russian armies were at the very gates of Constantinople, Disraeli called a halt by sending the British Fleet to the Sea of Marmora; Macedonia was restored to Turkish bondage by the "peace with honor," which meant that some day the sons of the men who revelled in the "jingo" rhyme would litter the shores of Gallipoli. After 1880 British policy changed, for two reasons; the revolt of British Liberal sentiment against further connivance at the oppressions of Abdul Hamid, and the occupation of Egypt by a British Liberal government. With the latter event, British ascendancy at Constantinople disappeared, much to the delight of the Russians, who began to feel so secure about the Straits that they seemed to lose interest in them. That was natural, Russia might tolerate Turkish possession, for a weak Turkey could easily be overawed by the might of Russia.¹³ As German influence grew at Constantinople, Russian fears and ambitions revived.

¹³ It is interesting to note that the Soviet representatives to the Lausanne Conference backed the Turks to the limit in their demand that the Straits be freed from the possibility of control by any one of the great powers, and that they should be forever closed to warships. At the same time it was noticeable that the Turks were just a little sceptical of the disinterestedness of the Russians.

THE CONFLICT OF GERMAN AND RUSSIAN INTERESTS

Russo-German relations became decidedly strained after the Second Balkan War, when General Liman von Sanders with a large military mission arrived at Constantinople, to effect a reorganization of the Turkish army. The Russian press interpreted this to mean that the Turks had to all intents and purposes become allies of Germany, and the latter would act as their protector, a correct interpretation, as the war was to prove. For the Russian ruling class this produced a serious situation, because German control of the Straits placed the most troublesome obstacle imaginable in the way of the realization of their age-long ambition. The Turks having granted the military mission wide administrative powers, Russia entered an emphatic diplomatic protest; the prelude to the coming World War. Strained relations between the two great powers followed. In the spring and early summer of 1914 tension was high. While ambition, fear and suspicion were creating in both countries a state of mind favorable to war, a discussion of unusual significance arose. Dr. Delbrück, the editor of the influential *Preussische Jahrbücher*, had asked the eminent historian, Professor Mitrofanoff of Petrograd, to explain the growing anti-German feeling in Russia. The latter complied in the June number with an article of astonishing frankness. He contended that Russia must control the Straits, and would not feel secure till she did, that it would be folly for Germany to attempt to block the realization of this historical ambition. He concluded his discussion of the Turkish problem with these ominous words, "It is now clear to Russians that if everything remains as it is at present, the road to Constantinople lies through Berlin." He went on to warn the Germans that the Russia of 1914 was a much stronger power in the military, financial and industrial senses of the word than the Russia of 1904, and while war with Germany would be a regrettable misfortune, it might still become an inexorable necessity.¹⁴ While the German press was discussing Mit-

¹⁴ The late Baron Korff, in the course of a private conversation, told the writer that Mitrofanoff's views represented correctly the attitude of the bureaucracy and the class of "intellectuals" to which the professor belonged.

rofanoff's sensational views German fears were intensified by the publication, in the *Petrograd Bourse Gazette* on June 13th, of a provocative article entitled, *Russia is ready; France must be ready also*. The article was generally thought to reflect the views of the Russian War Minister.

The Russian determination to block Austro-German policy in the Balkans and toward the Straits had by 1914 been maturing for nearly six years, ever since the defeat and humiliation experienced in the Crisis of 1908-9, when Austria annexed Bosnia and Herzegovina which she had been given the right to administer by the Treaty of Berlin in 1878, though the provinces were to remain under the nominal sovereignty of Turkey. Germany in the words of the Kaiser stood by her ally "in shining armor." The German Government vetoed the proposal for a new Congress to consider the question, and by what was virtually an ultimatum forced Russia to assent to the annexation.¹⁵ The Pan-German attitude during the Crisis became perfectly clear and was strengthened by the course of events. It was obvious to the German imperialist that as Russian power grew, sooner or later, the Austrian and Turkish Empires as a matter of self-preservation would throw themselves under the protection of Germany, thus opening the way for economic penetration and control, the thing which really counts in modern imperialism. The German imperialists' chief concern in the years from 1909 to 1914 was with the road connecting the Mittel-Europa of their dreams with the Near East, hence they insisted that the "corridor" through the Balkan Peninsula should be kept open, and, therefore, they could not tolerate for a minute a strong Slav State under Russian influence, which would menace this route to the east. On the other hand it is equally clear that the Russian imperialists with their hearts set upon Constantinople and the Straits could not allow the German plans to come to maturity. Look at the Near Eastern question from the German imperialist's point of view and you will see how Russia was forcing war upon Germany. Look at

¹⁵ We deal with the complicated diplomacy of this Crisis in Appendix B.

the same question through Russian eyes and you will readily understand how Germany was forcing war upon Russia.

That imperialism prepared the mind of the European nations for war no one can doubt. All the great powers were imperialistic; every one acted upon the ideas embodied in the economics of imperialism. In creating the war mind, no single European nation was at fault, no two nations; they all were, for they all accepted as normal that state of international anarchy which for nations makes the life of man, "solitary, poor, nasty, brutish, and short." It was the incessant imperialistic struggle which brought the great powers periodically into conflict with one another, and kept Europe in a state of tension and turmoil from which there seemed no escape but war—the escape of the maniac who blows out his brains in a moment of desperation!

TRADE POLICY AND NATIONALISM

In Chapter V. we remarked that the dogma, "Trade followed the flag, and the flag followed trade," had a vital meaning in the politics of Europe because it expressed the national interest in imperialism. Without the appeal to national sentiment the policies of protectionism and imperialism would never have received the uncritical acceptance which they have had in our modern industrial countries. To really understand much that is irrational in international relations we shall have to give a brief analysis and explanation of nationalism as displayed in modern history.

The sentiment of nationality is an old one; what is new is its political significance. "In the sentiment of nationality there is nothing new. It was one of the main keys of Luther's Reformation. What is new is the transformation of the sentiment into a political idea. Old history and fresh politics worked a union which has grown into an urgent and dominating force. Oppression, intolerable economic disorder, governmental failure, senseless wars, senseless ambitions, and the misery that was their baleful fruit quickened the instinct of nationality. First it inflamed visionaries, then it grew potent with the multitudes, who thought the

foreigner the author of their wretchedness. Thus nationality went through all the stages. From instinct it became an idea; then fervid prepossession; ending where it is to-day, in dogma, whether accepted or evaded." ¹⁶ It was the French Revolution, enthroning the sovereignty of the people, which brought the principle of nationality to the fore as the dominant political idea, and stamped it as a democratic principle, emphasizing government by consent. Though the sentiment of nationality is so old that Dante, Joan of Arc and Robert Bruce might all be called nationalists, yet their nationalism was based primarily upon repulsion for the foreigner, something quite different from the militant consciousness of a national unity and purpose, which the French Revolutionaries felt so intensely, and which sent their armies forward in 1793 shouting "vive la nation." The course of the French Revolution illustrates the use and abuse of nationalism; its power for good and its dangers to liberty, in whose name it at first professed to act. It shows how an intense nationalism can easily degenerate into an aggressive and dominating imperialism, arousing enemies on all sides, a danger to the nation's neighbors, and in the end a great danger to its own real good.

FACTORS IN NATIONALITY

Nationality depends upon the recognition of common factors in the life of a people. Recognition is fundamental, and no quality or interest, however common, to a people, can be regarded as a basis of nationality unless recognized as common by those who possess it, and any quality or interest if so recognized can be a basis of nationality. Sometimes factors of community are "recognized" which have no reality beyond their recognition. It used to be thought that consciousness of race was the chief factor in nationality, but we know now that there are no pure races in Europe, and the consciousness of race unity is in nearly every case a delusion. It is more correct to say that the consciousness of a common race springs in nearly every case from consciousness

¹⁶ Lord Morley, *Politics and History*, p. 72.

of nationality itself. The factors entering into nationality are many and are found to be of varying importance in different nations. Nationality also depends upon the recognition of difference as well as of likeness. For example, the Pole not only feels that he is like every other Pole to some extent, but also that he is different from a German or a Russian. His consciousness of nationality is thus two-sided; he feels that he possesses certain exclusively common qualities which unite him to all Poles, and at the same time separate him from the people of other nations. And in Europe this consciousness of likeness within the nationality and difference without is felt very keenly, more so than we in America are apt to realize because of the assimilating power of our republic.

The chief factors regarded as common in the recognition of nationality are race, language, territory effectively occupied, economic interest, religion, characteristic modes of life, political status and traditions. Very few nationalities can make a valid claim to unity of race, perhaps the Jews and the Japanese have the best claims. Language rather than race is now held to be the most important factor in the development of the spirit of nationality, and yet, the Belgians and the Swiss are possessed of distinct nationalities without having unity of language. The Flemish and the Walloon provinces of Belgium feel that they have much more in common with each other than the former have with Holland or the latter with France. The people of the French and German Cantons are conscious and proud of their Swiss nationality, and the Italian speaking inhabitants of Ticino look upon them as their fellow-countrymen. Undoubtedly the possession of a common territory contributes powerfully to the sense of a common nationality. When people are closely associated together the power of environment is strong enough to develop common characteristics. Nowhere is this better illustrated than in our own country. The development of our American nationality has depended more than anything else upon the power of assimilation. The troublesome problem of national minorities exists in Europe, because each national group segregates itself upon a small and exclusive area, thus creating a miniature nation within a larger one.

The economic interests of people contribute greatly to the growth of the spirit of nationality. In our federal union the slave states were so closely drawn together by their peculiar institution that they attempted to maintain a separate confederation which in the course of time might have led to the formation of a new nationality. Since the Civil War all of our states have been brought more closely together through the realization that their common economic interests united them, and internally, free trade has promoted this feeling, while externally, high tariffs have marked us off from the foreigner. On the other hand, economic interests and free trade were not strong enough to remove the desire for self-determination among the various nationalities of the Austrian Empire, but undoubtedly economic considerations made their union tolerable, and was the basic reason for its long existence. Religion sometimes plays an important part in the formation of nationality. With the Jews it is an exclusively common factor. But, as in Switzerland, religious differences may still exist, and nationality be firmly established on other grounds. Sometimes as in the case of the relations of Poland with Russia it strengthens the spirit of nationality by emphasizing difference. In the case of Germany it contributed to the delay in unification, separating the Catholic Bavarians from the Protestant Prussians. John Stuart Mill declared that among the causes generating the feeling of nationality "the strongest of all is identity of political antecedents; the possession of a national history, and consequent community of recollections, collective pride and humiliation, pleasure and regret, connected with the same incidents in the past."¹⁷

It should be noticed that no one of the above factors appears in all cases of the consciousness of nationality, and also that with different nationalities different factors are of greater or less importance. One would naturally think that political unity was in each case required, but that is not so. The Germans of Bohemia are conscious of their German nationality, even though they are politically separated from the Fatherland. Before the war, Po-

¹⁷ *Representative Government* Chapter XVI.

land furnished an excellent example of this. All Poles were aware of their common nationality, though subject to German, Russian or Austrian rule. In fact subjection kept alive and intense the consciousness of their nationality. That factors vary in importance is seen by the part played by political unity: it has had a great deal to do with the development of the British and the Swiss nationalities, but with the Germans and the Italians the consciousness of nationality came first and led to political unity.

The term "nation" is widely used but often with a double and confused meaning. We have been considering the term in its sociological sense, which must be distinguished from its usage in international law, where the word is practically synonymous with "sovereign state." Thus sociologists before the war wrote of the Poles as a nation, also of the nations composing the Austrian-Empire.

SOVEREIGNTY BASED UPON NATIONAL SELF-DETERMINATION

The idea that the boundaries of state and nation should coincide is the principle of national self-determination. The idea was well summed up by M. Chevrin in his study of the Dual Monarchy,¹⁸ "This phrase (le principe des nationalités) means the right to which human groups, large or small, but united by a community of origin, of language, of customs, of history and tradition, of social and political aspirations, have to bind themselves together, in order to escape from a foreign yoke and to constitute a state, a fatherland in the latest and most exalted acceptation of these words." This was the principle which the Allies put forward as their main object in the political reconstruction of Europe. Even before we entered the war, President Wilson stated the principle clearly as one of the essential conditions of lasting peace. In his notable address to the Senate on January 22, 1917, he declared that, "No peace can last, or ought to last, which does not recognize and accept the principle that governments derive all their just powers from the consent of the governed, and no right anywhere exists to hand peoples about from sov-

¹⁸ *L'Autrich et la Hongrie de Demain.*

ereignty to sovereignty as if they were property," and then by way of illustration he referred specifically to Poland. President Wilson, and Americans generally, during the war, conceived of the principle of nationality as fundamentally the democratic principle of government by consent. As such we naturally extolled it. In so doing we were following in the steps of the early Nineteenth Century liberals who felt sure that the rising national spirit everywhere would work for liberty and progress. On the whole we Americans in our better moments had the same conception of nationalism which was held by its great Italian prophet, Mazzini, whose outlook was both democratic and international. As was his custom, J. S. Mill in 1861 stated the liberal position clearly and forcibly: "Where the sentiment of nationality exists in any force, there is a *prima facie* case for uniting all the members of the nationality under the same government, and a government to themselves apart. This is merely saying that the question of government ought to be decided by the governed. One hardly knows what any division of the human race should be free to do if not to determine with which of the various collective bodies of human beings they choose to associate themselves."¹⁹

GOOD AND BAD IN THE NATIONAL SPIRIT

But while the spirit of nationality was being hailed as the liberator of the world, there were some profound students like Acton, who writing the year after Mill, characterized it as an evil thing whose development "will be marked by material and moral ruin, in order that a new invention may prevail over the works of God and the interests of mankind."²⁰ The difference in the views of Mill and Acton is not accounted for completely by the fact that the former sympathized with democracy while the latter did not. It is more true to say that they read different lessons from the "revolutionary period" of the European history. After making due allowance for its excesses, Mill saw in the

¹⁹ Representative Government, Chapter XVI.

²⁰ Lord Acton, *History of Freedom and other Essays*, Essay on Nationality.

democratic, national spirit of France, a power for political good; Acton saw in the same spirit a danger not only to order and stability but to freedom itself. Now the paradoxical thing about these views is that by the history of the last half century both can be justified.

What is supremely necessary is to realize the limits of the ideal of nationality. In Revolutionary France and in the Imperial Germany and the Tsarist Russia of our day, it was failure to respect those limits which perverted the ideal from an incentive to good to an incentive to evil. While a disunited people hope to form a single state, or so long as a subject people hope to gain a government of their own, just so long, and no longer, is nationality a true ideal for such a people. Having created their national state they must then strive to promote the interests of their nation, and this new ideal which in the modern world involves many and complex considerations requires a wider view, for though characteristics mark off one nation from another and justify a considerable measure of political independence, still, under present-day conditions, the interests of all nations, both cultural and economic, create a condition of interdependence, and require a recognition of the fact that the great society of which each is a part transcends the limits of the national state.

ECONOMIC REASONS FOR THE GROWTH OF NATIONALISM

In the face of the scientific and economic advance of the Nineteenth Century which brought all the peoples of the earth closer together, why did nationalism grow so intense? The reason is not so hard to find as it appears at first sight. *The rapid growth of transportation and communication made itself felt first of all within the national area.* The old economy was local, provincial; the Industrial Revolution made it national, and towards the end of the century it was clear that the movement would not stop short of a world economy, for whatever nationalists thought, practical business men simply acted on the principle of selling in the best market, and thus it was soon seen that the national state was too restricted an area for modern industry and

commerce. But the development of nationalism in the last century was perfectly natural, perfectly normal; that consciousness was bound to become intensified when people from all parts of a nation had easy access to one another. Where nationalism went wrong was in the supposition that the interests of the nation could be confined within the limits of the national state. The widening of the social unit from the town or county to that of the nation as a whole was a step in the right direction, a necessary step in social advance, and the coming of the railroad and telegraph greatly facilitated the growth of the national viewpoint. No country profited so much by these means of rapid communication as our own. Without them our growth would have been restricted, and sectional policies and influences would have had a disruptive effect.

NATIONALISM AND CONSCRIPTION

There is prevalent among us the view that conscription is a device of monarchs to keep their people subdued. Looking at Germany most people jumped to this conclusion hastily. Nothing could be farther from the truth. Conscription was born in the democratic and nationalistic France of the Revolution, in the terrible year of '93. Attacked on all sides by the forces of the allies, the Revolutionists resorted to conscription. The National Convention on August 23rd passed the first law of conscription on record. The Act of 1798 was more complete, but it simply carried out more methodically the former law. The new forces swept everything before them in the campaigns of 1794-5, the invaders were driven out, and the momentum gained carried the French forces into Holland, the Rhineland, and the Genoese Riviera. Thus, originally conscription was not a device of monarchs for the subjection of their peoples, but the method used by the most democratic of governments for the expulsion of the armies of monarchs. It was the powerful spirit of nationalism that made conscription possible. In the present condition of widespread general ignorance of history, denunciation of Prussian militarism for

having given conscription to the world was natural, and in this country it proved an easy way to work up the war spirit against Germany. But no monarch dared to adopt the principle of universal military service till Frederick William III of Prussia, with hesitation, resorted to it as the last expedient to save his humiliated kingdom from ruin. What gave him the courage to take this step was the rising spirit of nationalism. The literature of the time is full of it. Fichte's "Addresses to the German Nation" after the disaster of Jena reflected as well as inspired the growing national drama. The nation became an ideal for which men were willing to sacrifice all. The national ideas of the French Revolution spread throughout Europe, and in the end the imperialism of Napoleon was overthrown by this same rising tide of nationalism.

NATIONAL EGOTISM

All the evil tendencies which preceded the outbreak of the war were connected with the aggressive spirit of nationalism which developed in all countries by the end of the Nineteenth Century. Mazzini never imagined the course the spirit which he invoked would take. Like Rousseau and Emerson, he had a wonderful belief in the natural goodness of man. The national state was the free democratic state, and the nationalist would respect the rights of every people, for free men would wish to see no people oppressed. According to Mazzini the outlook of the true nationalist would be both democratic and international. Subsequent events have falsified his predictions. European nationalists have not been satisfied with the creation of their national states; no, not at all, the next thing is an empire of which the nation is the head. The intoxicated nationalist sees only his own nation, beneficent, unique, incomparable, divinely appointed to rule "the lesser breeds without the law." To him nationality is no longer the bond uniting a single homogeneous community, but his own people's right to govern. Instead of promoting neighborliness the intense spirit of nationalism proved destructive of it. Instead

of giving men a wide international outlook it narrowed their vision and blinded them to their own real interest. In the economic field it erected tariff barriers to destroy the economies of international trade. Everywhere it sowed the seeds of international ill-will. It conscripted men and armed them to the teeth; finally it sent them to their death in the most destructive of wars.

THE POLITICAL SIGNIFICANCE OF THE NATIONAL PRINCIPLE

Some thoughtful publicists have been so impressed by the evils of nationalism, that they would deprive the principle of nationality of all political significance and restrict its application to the social, educational, religious, and cultural sphere solely. Yet it is doubtful whether social and cultural control would be enough to satisfy a highly conscious nationality. The Irish would never accept it, nor the Poles, nor the Balkan peoples. "Cultural autonomy," however, is a valuable ideal in those parts of Europe where nationalities are intermixed and where national minorities are inevitable. Such minorities should be given the utmost freedom in the development of their own social life. The evils of intense nationalism are undoubtedly great, but to attempt to divest the principle of nationality of political significance is a hopeless task. For over half a century British statesmen gave the Irish not only "cultural autonomy," but went out of their way to treat them with fairness, granting them all the rights and privileges enjoyed by the people of Great Britain,—in the Imperial Parliament, compared with Scotland they were over-represented—but to no avail, the demand for a government of their own never ceased; and what is true of the Irish is true of any highly conscious nationality. The demand for national self-determination is to-day a cardinal political fact, and we shall not make any progress in international politics by ignoring its existence, or by supposing that it can or should be ignored. Nationalism has distinct political value which must be recognized; it has also dangers now clearly understood which must be guarded against. We must work for the realization of Mazzini's noble ideal of the democratic nation of internationally minded men and women.

MODERN ABSOLUTISM

Unrestrained nationalism has had a deadening effect upon the development of democracy. We have traced the close connection between nationalism and militarism, we have seen how conscription was born in the terrible year of the French Revolution, and how it came to be an accepted institution in Prussia. We have also touched upon the close connection between nationalism and modern economic imperialism, all of which is contrary to the naturally free spirit of democracy. But the greatest blow to democracy has been the nationalist conception of the sovereignty of the state. The Eighteenth Century gave promise of a complete revolution in men's thinking about politics. The democratic theory heralded the day when absolutism would vanish from the earth, when the doctrine of divine right would no longer cramp the aspirations of the human spirit. But nationalism retained these ideas in a more pernicious form and fastened them upon the democratic state. In the place of the absolute monarch appeared the greatest tyrant of all time, the absolute state. Instead of the monarch ruling by divine right men beheld the national state claiming all the attributes of divinity, and these modern states have demanded and received a devotion and loyalty more complete than that ever given to monarchs. Thus democracy changed the form of the state but not its essence. The Eighteenth Century democrats believed that in overthrowing absolute and irresponsible monarchs they were freeing mankind from the tyranny of absolutism. In this they were mistaken, for the democratic national state which they erected has claimed and exercised a sovereignty more complete and unrestrained than any Tudor or Bourbon ever dreamed of. The whole tendency of modern nationalism has been to deify the state, and make unquestioning obedience to it the supreme obligation of life. We criticized the Germans on this score, only to find, after we entered the war, that we ourselves held substantially the same conception. We exalted democracy as the agency which would rid the world of war, but few of us realized the implication of this idea. Democracy will never create a peaceful world till it carries its struggle

against absolutism to its logical conclusion and rids the world of absolute states. Democracy will have failed in this task if it does not subject the national state to law based upon those moral principles which civilized men and women everywhere accept as binding upon themselves. Undoubtedly democracy would have developed in this direction had it not been linked so closely to a nationalism which insisted that national purpose must be achieved by any means within the power of the state. Aggressive nationalism has never really questioned the maxim that "the end justifies the means," but it never expresses itself so bluntly, wisely decorating its purposes by such phrases as *manifest destiny*, *historical mission*, *national honor*, etc.

NATIONALISM AND THE DEVELOPMENT OF THE WAR MIND

Nationalism created in Europe a state of mind favorable to war. It introduced an unstable element into the politics of Europe, for the peace of the continent rested upon a balance of power which national aspirations constantly threatened to upset, thus producing a feeling of insecurity among all of the great powers, and this feeling is the fertile soil in which militarism grows with tropical luxuriance. The principle of nationality was in the sight of the German a veritable sword of Damocles, for at any moment it threatened to weaken fatally his Austrian ally. Over this principle, Turkey came to grief in the First Balkan War and Germany suffered accordingly. Because of the national principle Germany could not count unreservedly upon the support of Italy; on the contrary it was feared that Italy would seize the opportunity of a general European war to carry out her *irredentist* policy. If this were the case, Germany was being "encircled" and the balance of power weighted heavily against her. As the national difficulties of the Dual-Monarchy grew, the insecurity of the Vaterland became more and more apparent to the rulers of Germany. To the German militarists the only solution of the problem was direct German control over the Austrian Empire; the creation of a Mittel-Europa whose subject nationalities would be thoroughly militarized and disciplined in the Prussian manner.

This plan had the further merit of coinciding with the plans of certain aggressive business interests in Germany, whose hopes rested upon the creation of a new *Zollverein* embracing all the states of central Europe, including the Balkans, an economic area dominated by German trade and finance.

The national causes of the war are well known. There was the French determination to recover Alsace-Lorraine, the *irredentist* aspiration of the Italians, the Transylvanian claims of Roumania, the longing of the Poles for their own national state, and, as it turned out the most critical of all, the hope of the Jugo-Slavs for union in a single state under the leadership of Serbia. As for the politics of the great powers the principle of nationality carried with it the constant danger of upsetting the balance through the disruption of the Austrian Empire, exactly what happened after the war. As the politics of Europe were the politics of power, it is easy to see how the national aspirations of the various nationalities of the Dual Monarchy carried with them the danger of a general conflict. In a Europe of ententes and alliances Germany was bound to maintain the integrity of the Austrian Empire, for Austria was her only sure ally.

After the Crises of 1908 and 1911 it was clear to any thoughtful observer that there were forces at work in Europe making for the mightiest civil war which the World had ever seen. For over a hundred years all the forces of modern civilization had been actively at work creating out of the European countries one great society, and the logical result of this development should have been some form of federation in which their common interests would find protection. The spirit of nationalism stood in the way of this. It prevented security being achieved by some form of political unity, while in a Europe whose peace rested upon the precarious basis of a balance of power, the spirit of nationalism was a constant menace to the balance itself and the peace which rested upon it. While the European statesmen did nothing toward achieving federation, yet they were fully aware that common interests did not stop at the national frontiers, and this realization had the disastrous effect of splitting Europe up into two armed camps with the formation of ententes and alliances. No

nation, not even Germany, was powerful enough to act alone. Preparedness demanded not only universal military service within the nation, but also allies, security and strength resting not with the individual power alone but with the group.

THE GROWTH OF ALLIANCES

The vast military and naval preparations of the Great powers which preceded the outbreak of the Great War were the result of fear as much as of ambition.²¹ After the terrible year of 1870-1, defeated, humiliated, and not regarding the Peace of Frankfurt as final, the French people in their wounded pride gladly accepted universal military service as a bulwark against a repetition of the events of the disastrous year, also in the hopes that when the day of *revanche* came old scores would be settled. However, Bismarck knew the French character well enough to understand the tendency of the French policy. He countered it in 1873 by the first *Dreikaiserbund*, a friendly understanding between the three empires, Russia, Austria and Germany, designed to maintain the *status quo*. But German friendship with Russia cooled quickly. It received a sharp setback in 1875, when the Tsar Alexander and Gortchakoff joined Disraeli in warning Bismarck not to push matters with France too far. The Congress of Berlin, 1878, which modified the terms of peace which the Russians exacted from the Turks, also chilled Russo-German friendship, in spite of Bismarck's claim to the rôle of honest broker. All this time the Austrian interest in the Balkans was bringing Vienna to a closer understanding with Berlin. Russian resentment, therefore, led Austria and Germany in 1879 to form a defensive alliance, for this was the only way they could hope to cope with the enormous and rapidly increasing man power of Russia, the one and only thing Bismarck feared and never ceased to fear. By means of the Dual Alliance, Bismarck made sure

²¹ "The root of the evil lay in the division of Europe into two armed camps, which dated from 1871, and the conflict was the offspring of fear no less than ambition." Gooch, *History of Modern Europe 1878-1919*, p. 559.

that Germany would not have to fight Russia alone, also that in case of a war of *revanche*, France would not have the support of Austria, while if she gained the help of Russia, Austria would come to the aid of Germany.²²

In 1882 the Triple Alliance was formed, Italy adding her power to that of the central empires. Italy's accession seemed strange indeed but it is easily explicable. As we have seen, after 1880 France began her great imperial career in North Africa, and the annexation of Tunis in 1881 was for the Italians the last straw, they having ear-marked the territory for themselves. Single-handed Italy could not hope to cope with France and French action, therefore, meant the end of isolation. Not only that but the Quirinal and the Vatican were sharply at odds, and an alliance with Catholic Austria would give the Italian government much needed diplomatic support. On the other hand, "irredentist" dreams of the Italians put any wholehearted friendship for Austria out of the question. It was also felt that should Great Britain ever become involved in a war with the central powers, friendship for England as well as her position in the Mediterranean would keep Italy neutral. That, however, because of English friendship for both Germany and Austria, was not an important consideration in 1882, and so they permitted Italy on May 22nd, two days after the signing of the Treaty, to issue a declaration that the alliance was not directed against England, and six days later similar declarations were issued from Berlin and Vienna. The Triple Alliance lasted till the outbreak of the war, and was the most permanent feature of the diplomatic system of Europe for thirty-two years preceding the conflict.

The Triple Alliance of 1882 which supplemented, but did not supersede the Dual Alliance of 1879, was, like the latter, a purely defensive arrangement. On its face the Treaty reveals no aggressive purpose. "The High Contracting parties mutually promise peace and friendship, and will enter into no alliance or engagement directed against any one of their States." Should

²² For the texts of the treaties, with an excellent historical introduction, see, *The Secret Treaties of Austria-Hungary 1879-1914*, edited by Professor Pribram, English edition by Professor A. C. Coolidge.

France make an unprovoked attack upon Italy, Germany and Austria would come to the latter's aid; and should France attack Germany without direct provocation, Italy would assume the same obligation. The first two articles contains the above specific pledges. The remaining articles give general guarantees. If two or more great powers non-signatory to the Treaty should without provocation attack one or two of the members of the alliance, the *casus faderus* will arise simultaneously for all three. In case the security of any one of the three members of the alliance is threatened by an outside great power, and on that account the members would have to make war, "the two others bind themselves to observe towards their ally a benevolent neutrality." Each of them reserves the right to make common cause with its ally, if it should see fit. Should the peace of any one of the three be threatened by an aggressive action on the part of any other great power, all three "shall take counsel together in ample time as to the military measures to be taken with a view to eventual military co-operation." In case of war no separate peace will be made. The treaty of alliance shall remain in force for five years, and its contents, even its existence, is to be kept strictly secret. Such were the main provisions of the famous Triple Alliance of 1882.

In the renewal of 1887, some remarkable agreements were added to the Alliance. A separate treaty between Austria-Hungary and Italy provided that in case the *status quo* could not be maintained in the Balkans, along the Ottoman Coasts, and in the islands of the Adriatic and the Ægean, the two powers are to co-operate in the division of territory and advantages on the basis of reciprocal compensation. In a separate treaty between Germany and Italy, the latter gained support against France for her imperial ambitions in North Africa. In the third treaty of the Triple Alliance in 1891, Italy's plans in Northern Africa were sanctioned, but Morocco and Tripoli were not specifically mentioned as they were in the German-Italian Treaty of 1887. After the renewal of 1902 was signed, Austria issued a secret declaration giving Italy a free hand in Tripoli and Cyrenaca. In the fifth and last

renewal, that of December 5, 1912, the sovereignty of Italy over Tripoli was explicitly recognized.

With each successive renewal, the essentially defensive character of the Alliance was explicitly affirmed. Italy, however, with remarkable diplomatic skill managed to insert into this treaty for defense and peace, clauses which supported her imperial ambitions. The truth is that after 1887 Italy no longer feared an attack by France, and she never had any real intention of breaking with England. In 1896 she notified her allies that "she could not participate in a war in which England and France should figure as the joint adversaries of the Triple Alliance."²³

The contrast of Bismarck with the German ministers who followed him is striking. Having created the German Empire, he was determined to give it peace and security. Aside from the war threat against France in 1875, which he withdrew in the face of English and Russian opposition, his record is clear. He was a nationalist through and through and made national unity and security his chief aim. To this end he maintained the German army at the highest point of efficiency and arranged with Austria the Dual Alliance in 1879. The alliance was aimed specifically against Russia. Two years later he engineered the most remarkable piece of diplomacy in modern times, the League of the Three Emperors of 1881.

The principal provision of the agreement of 1881 is contained in Article I. which declared, "In case one of the High Contracting Parties should find itself at war with a fourth Great Power, the two others shall maintain towards it a benevolent neutrality and shall devote their efforts to the localization of the conflict. This stipulation shall apply likewise to a war between one of the three Powers and Turkey, but only in the case where a previous agreement shall have been reached between the three courts as to the results of this war." The latter consideration was the inducement to Russia, and the Tsar joined the League in order to get the neutrality of his associates in the next war with Turkey.

²³ Professor Pribram, Introduction to *The Secret Treaties of Austria-Hungary*, p. 11.

Bismarck secured for Germany the neutrality of Russia in case of another war with France, and it is highly interesting to note that nothing specific is said as to the nature of the war, whether aggressive or defensive, benevolent neutrality being pledged in either case. The treaty contained an important provision to the effect that Austria's new position in the Balkans growing out of the Treaty of Berlin would be respected by Germany and Russia. The protocol to the Treaty went into detail as to the Balkan and Near Eastern arrangements, and in the light of the crisis of 1908-9, the most interesting concerned Bosnia and Herzegovina; "Austria-Hungary reserves the right to annex these provinces at whatever moment she shall deem opportune." This Treaty supplanted the *Dreikaiserbund* of 1873, and was to remain in force three years. It was renewed in 1884, but allowed to lapse in 1887, when Bismarck concluded his famous "Reinsurance Treaty" with Russia, in which each country pledged the other benevolent neutrality in case of war, with this important exception, "This provision would not apply to a war against Austria or France in case this war should result from an attack directed against one of these two latter Powers by one of the High Contracting Parties."

When the Kaiser dropped the old pilot, the ship of state passed into less skillful and less careful hands than those of the iron chancellor. It is inconceivable that Bismarck would have allowed Germany to engage in a war under the conditions which prevailed in 1914. But his task was a simple one, to consolidate the empire whose formation he had guided. A nationalist of the old school, he was not obsessed with the ambitions of economic imperialism. Believing that the Balkans were "not worth the bones of a Pomeranian Grenadier," he had no particular trouble keeping on good terms with the Russians. Not only that but after 1875 he seems to have made peace his chief concern, and succeeded in giving the impression that his policy was purely defensive. After Bismarck's retirement in 1890, the "Reinsurance Treaty" with Russia was allowed to lapse. Friction between the two powers began to increase, so that in 1891 Germany found herself faced by the formidable Dual Alliance of France and Russia.

It was a difficult thing to bring two governments so different

as the French and Russian together, and nothing but their common fear of Germany could have done it. Democratic France needed the help of Tsaristic Russia, in the event of another war, and Russia alone could not face the Triple Alliance. Fundamentally, this was the situation leading to the pact. In 1890 neither France nor Russia seems to have been aggressive. Still there were those in France who hoped for the war of *revanche*, and also those in Russia who longed for the realization of their Pan-Slav ambitions, and the acquisition of Constantinople and the Straits. These elements added their weight to the natural desire for security in both countries. So after many pourparlers and much correspondence, the alliance or accord was finally embodied in an exchange of notes, which took place formally on August 21, 1891.²⁴ The terms of the agreement are surprisingly short. The purpose of the accord is declared to be the maintenance of the general peace. The two governments pledge themselves to concerted action, should any question arise threatening the general peace, and to discuss immediately the measures required for simultaneous co-operation in case of war. This last clause was given a broad interpretation and led to "conversations" between the members of the two general staffs, and the understanding reached between them was embodied in the military convention formally concluded on December 31, 1893. This convention provided for combined action the moment either of the parties was attacked by any of the powers of the Triple Alliance. The number of men to be employed against Germany was designated, future conferences were stipulated, and the convention was to remain in force so long as the Triple Alliance endured. In case of war no separate peace would be made by France or Russia. Absolute secrecy was pledged.

When M. Delcassé went to Petrograd in 1899, he arranged for

²⁴ For an illuminating survey of the diplomatic exchanges with texts of the documents, see Welschinger, *L'Alliance Franco-Russe*. For a good concise narrative of the events between the years of 1885 and 1891 see the paper "Russia and the Dual Alliance," contributed by Mr. L. B. Packard to the *American Historical Review*, April, 1920. The French Government issued a Yellow Book on the subject in 1918.

two important revisions. The original understanding stated that the aim was the maintenance of the general peace; this was broadened and the object declared to be the maintenance of *peace* and the *equilibrium* of the European powers. Thereafter, it was one of the objects of the alliance to preserve the balance of power in Europe, and practically, this meant that the power of the Triple Alliance was to be restrained, the beginning of that policy which Holstein characterized as "encirclement" which the Germans came to fear so much. The second important revision provided that the military convention would remain in force so long as the accord between the two countries lasted, even though the Triple Alliance should be dissolved in the meantime. Finally, an agreement concluded in the summer of 1912 provided for naval co-operation in case of war.²⁵

In sketching the history of modern imperialism we traced the events leading to the formation of the *entente* between Great Britain and France in 1904. While not a formal alliance, "conversations" were held under it of such a nature that France was led naturally to rely at least upon the naval support of Great Britain in case of war with Germany, an obligation unknown to Englishmen till Sir Edward Grey acknowledged it in his astonishing speech in the House of Commons on August 3, 1914.

The *entente* which M. Delcassé arranged with Italy in 1902, put the latter in a very doubtful position. Italian *irredentist* ambitions also led the rulers of the central empires to count only upon the neutrality not the active help of Italy in case of war. While an exacting partner and a doubtful ally, the central powers did not dare to exclude Italy from the Alliance, for that, sooner or later, would place her definitely in the opposing combination, and after all, it would be worth something to have Italy's neutrality at the start, because the war, as all experts declared, would be so short, that her strength could not be placed in the opposing camp soon enough to be of any real help to the enemy.

By 1914, preparedness working through alliances and *ententes* had lined up the European states in two great, hostile groups;

²⁵ This agreement is given in the Yellow Book *L'Alliance Franco-Russe*.

security resting not with the power of each nation but with the strength of the group. On the eve of the war Germany or Austria could count unequivocally upon the other's support. Russia and France were in the same position toward each other. It was clear that when the war came, these hostile dual alliances would be pitted against each other. After 1911, France and Russia had good reason to believe that they could depend upon British support. On the other hand, the efforts of Lord Haldane and Sir Edward Grey to come to an understanding with the Germans led official Germany at least to hope for the neutrality of England. But these governmental moves toward understanding were not followed closely in either country. Perhaps nothing but German willingness to accept definite naval inferiority would have brought the British people to a truly friendly understanding with the Germans. However, the formidable personality of Admiral Von Tirpitz blocked Bethmann-Hollweg's²⁶ leanings in this direction, and the former had the powerful support of German colonial and commercial circles, who argued that the British Navy was a constant threat to their overseas possessions and commerce, and unless checked would in the end prove destructive of their economic well-being. The formation of these alliances and *ententes* probably postponed war; in the end, however, they made it more destructive and more widespread.

PREPAREDNESS AND INSECURITY

One part of the preparedness programme is so well known that it need not detain us long, that is the growth in all of the Continental countries of conscript armies. Every crisis in Europe

²⁶ Bethmann did not become Chancellor till 1909 and by that time the damage was done. Bülow had set Germany definitely on her career of "Weltpolitik," and the Germans were loath to turn back. There is this overwhelming condemnation to be brought against the policy of Bülow and the Kaiser; they should have chosen between an eastern and western policy. It was madness to thwart Russia in the Near East and arouse Britain's hostility by threatening her naval security at the same time. For a smashing criticism of Bülow's policy, see Haller, *Die Aera Bülow*.

resulted in additions to the peace strengths of the armies, so that by 1914 France was training an annual quota of nearly 300,000 men, Germany over 400,000, Austria about 235,000, Russia nearly 500,000. War strength as contrasted with peace strength consisted not only of the conscripts in the field, but those recently trained reservists who could be called up immediately upon the declaration of war. This point should be remembered, for if it is not, serious mistakes are likely to be made about the size of the armies. For example, the late Major General Buat of the French Army stated that the peace strength of France in 1914 was 910,000 men, while that of Germany was 870,000. Granting the accuracy of this statement, it does not permit us to conclude that the French had a larger army than the Germans, for the French law called for three years service, while the German called for two years. This means that Germany was training 435,000 men each year and France about 303,000. The laws previous to 1913 worked out about the same proportions. The German reservists therefore greatly outnumbered the French, and gave Germany great advantage in the opening days of the war.

PLANS OF THE GENERAL STAFFS

The plans of the general staffs were of the utmost importance in the programmes of preparedness. Von Moltke had taught the world in 1870 the value of having everything pigeon-holed and in order, so that on the declaration of war the military machine would function with clock-work precision. In 1914, the German General Staff had every detail for a war on both fronts worked out. The Schlieffen plan had for years been their cherished hope. Von Schlieffen, when chief of the general staff, had calculated that an invasion of France after the manner of 1870 was out of the question. Not only was the frontier heavily fortified, but more important still, universal service had given France such numbers that their concentration on the two hundred and forty-two miles of boundary would render the line impregnable. If German forces were to be deployed successfully, they would have to go through Belgium and Luxembourg, for by so doing one hundred and

eighty-one miles would be added to the frontier, and as the German forces penetrated Belgium their line would become even further extended, all to Germany's advantage, because of the calculated fifty per cent preponderance over France which rapid mobilization would give her in the early days of the war.

The strategic reasons for the invasion of Belgium were so decisive that the actual event in 1914 probably did not surprise a single military man of importance in the whole of Europe. The British War Office was alive to the danger, and "conversations" between British and Belgian officers took place as early as 1906, and again in 1912; the dates are significant following years of crisis. . . . When the Germans occupied Brussels in 1914, they found record of these "conversations" in the Belgian archives, and gave them to the world to show that Belgium was the military ally of England and France, so that invasion was fully justified. This was an after-thought. Germany went through Belgium because a speedy triumph over France was an indispensable part of the plan of the German General Staff. In the face of the Russian menace, it would be military madness to try to force the line Verdun-Belfort by frontal attacks, so reasoned the General Staff. The construction of great railway yards at Aix-la-Chapelle confirmed the suspicions of the Belgians, and it was the most natural thing in the world that they should consult with the British guarantors of their neutrality as to the defence of their country. In defending Belgium, the English, of course, were fighting in their own interest, just as when they defended the Low Countries against the Spanish and the French. The German danger was such as to cause Belgium to adopt conscription in 1913, but the war came too soon for this act to yield good results.

That the French feared an attack by way of Belgium cannot be doubted. General Joffre has admitted this. In 1910, when General Michel was Chief of Staff, he proposed that an army of the North consisting of half a million men should be concentrated on the line Maubeuge-Dunkirk, but received no support from his colleagues. The truth is that the French hoped to wreck the German plan by a bold offensive. French strategists saw in the catastrophe of 1870 the dangers of a passive defence. They be-

lieved that the road to victory lay in a desperate energy of attack. This was the teaching of Foch at the Ecole de Guerre. In the opening days of the war, the French offensive was beaten down without causing any modification in the German plan. There has been brought against the French high command this overwhelming criticism; at a time when everything depended upon delay, so as to give Britain and Russia the time needed to marshal strength, they all but played into the hands of Germany, by giving her the chance of that decisive battle which she so much desired.²⁷ It is to the everlasting credit of General Joffre and the French Staff, that in the face of disaster, they could change their plan completely and at the Marne win a victory which in one sense was decisive. The Marne wrecked the whole Schlieffen plan of campaign and utterly transformed the strategical situation.

We have dwelt upon the plans of the General staffs, because they were not only an integral part of the whole preparedness system, but as it turned out, *these plans played a decisive part in bringing on the conflict*. In the critical month of July, 1914, when the diplomatists were doing their utmost to find a peaceful solution of the crisis, the military masters of both Germany and Russia stepped in and took the whole matter completely out of the hands of the civil authorities. Time was an element of overwhelming importance for the German Staff, every hour, every minute of the forty days required by Russia to mobilize in force had to be utilized to the utmost. It was therefore clear to any student of the European military situation that a general mobilization meant war upon the part of Germany, for while Russia was mobilizing the pupils of Von Schlieffen would deal France the knockout blow. On the other hand, the plan of the Russian General Staff contemplated the crushing of the Austrian forces in Galicia while the bulk of the German troops were engaged in the west. As a matter of fact the Russian plan like the German

²⁷ This is the view predominant with French military critics themselves, e.g., Thomasson, *Le Revers de 1914 et ses Causes*; Lanrezac, *Le Plan de Campagne Français et le Premier Mois de Guerre*. For the defence of the French Staff see, Berthaut, *L'Erreur de 1914. Response aux Critiques*.

came within measurable distance of success, for by the middle of September the Russian victories in Galicia had brought the Austrian armies to the very brink of demoralization, from which they were saved only by German aid. When Austria mobilized, the Russian plan demanded immediate mobilization, even though this step made war with Germany a certainty. The truth is that the preparedness plans of the great powers were such that a disturbance involving one of them soon involved them all in the gigantic conflict which alliances and ententes had been so assiduously preparing.

No nation in Europe accepted universal military service without being driven to it by fear. Great Britain alone of the great powers refused to adopt the system, and the reason was plain; safe behind her superior navy, her people did not fear invasion. The essential element in her defence was the power of her navy, and so long as that was kept at the highest point of strength, the British people were quite content to get along with their "contemptible little army." We in America could afford to disregard preparedness because of our favored geographical position. Our external problem is an easy one. However, for our internal peace we can claim a great deal of credit. Instead of setting up on this continent a half hundred warring nations, we have created one great federal union, solving for our states the problem of peace in the only way in which it can ever be solved—by common political action. Until the European states can find some such way of living together, they will not achieve the security they all want; fears will not be removed; furthermore preparedness will not make matters better but worse, as in the years before the war.

With the people of any country as a whole, the argument for preparedness is always based upon the desire for peace. You will prevent attack if you will only make it clear to your enemy that you are ready to meet it. Of course the patriotic citizen always considers his own country's purposes as purely defensive; it is the enemy that is the aggressor. This attitude of mind, which the common man showed so plainly, played into the hands of the imperialists and the aggressive elements in every European country. These elements, no doubt, feared to take an out and out

stand for war, but they reasoned that war would come some day, and then opportunity to carry out their plans would arrive. They urged preparedness, not because they were heart and soul for peace, but because preparedness would put the instrument in their hands which alone could achieve their purpose. The imperialistic elements in every country were able to exploit the plain people's desire for security and peace, and behind this pacifist camouflage were enabled to work out their own ulterior purposes.

For the nations of Europe security will never rest upon military preparedness. The reason is simple: preparedness is always a relative matter, and the result is to create an armed balance of power. If only one nation were prepared, it would enjoy a fairly good sense of security, but it is not in human nature for the people of other countries to sit idly by and do nothing. The best prepared, sooner or later, will find itself faced with a hostile coalition. The France of the Revolution and Napoleon taught Europe to arm. The Germany of Bismarck gave the same instruction. In the end, instead of achieving security and strength, militarism brought these two great nations to the verge of ruin.

There can be no doubt that the building of gigantic military establishments in the years before the Great War had much to do with the development of an attitude of mind favorable to war. The making of every man a soldier, the inculcation of military ideals, the use which diplomatists made of military prestige to gain their ends: all these things were making for war, not peace. Furthermore, the idea that army heads are to go on year after year planning campaigns and developing new and surprising weapons with the purpose of never using any of these things is foolish. General staffs are not children building houses of blocks only to knock them down. On the contrary they have the natural, human desire to achieve success, to win renown and have their names live after them. That was exactly how the military men of Europe felt, and when the crisis of 1914 arrived they had their plans and were prepared for action, so that when the situation between Germany and Russia became dangerous, the general staffs took control and dictated to the statesmen what should be done.

Had Europe not been so excellently prepared for war, the catastrophe might have been prevented.

In a Europe blatantly nationalistic with every state pushing to the utmost its policy of economic imperialism, it was the height of folly to suppose that the doctrine of the "nation in arms" could mean anything else in the end than war on the most gigantic scale conceivable. The plain truth is that neither spiritually nor intellectually were the peoples of Europe fitted to work out a programme of peace. As good Europeans they should have curbed the spirit of nationalism, and they should not have been misled by the economic folly of imperialism. They failed to realize the extent of the economic and cultural interdependence of their nations and the very real need for closer political connection, so that security and peace could be worked out in the only way that has ever been effective, through a concert of power springing from a union of states.

Arming to the teeth while leaving each nation a law unto itself was the sure way to court disaster. Internationally the European peoples were living in a state of anarchy, and the pity of it all is that they were so complacent towards the lack of political association; they had neither the understanding nor the will necessary to organize peace and security, and so they put their trust in preparedness, just as in the early days of our wild West, the bold strong man put his faith in his six-shooter—and was far less secure than the weakest citizen of a politically organized community. What Europe lacked was real political organization "to establish justice and ensure domestic tranquillity," in the words of the wise men who formed our federal union. In the absence of definite association to promote their common welfare, the relations of the European states were handled by the antiquated system of secret diplomacy, whose workings we shall now consider very briefly.

SECRET DIPLOMACY—HOW THE WAR CAME

We have already had several occasions to observe the workings of secret diplomacy, for the ententes and alliances were formed

in secret, and the obligations assumed were hidden from the peoples of all the countries concerned. Even in Great Britain, the most democratically governed of all the European countries, the nature of British obligations to France was not revealed by the Foreign Secretary until all Europe was in a blaze and the House of Commons had no real choice in the matter. Diplomacy, it has been well said, is "the danger spot of modern democracy." Liberal countries like France, Great Britain and Italy were democratic in everything but foreign policy. There, parliamentary control existed only in name, the foreign minister could evade or refuse to give answer to questions by the mere assertion that it was not in the national interest to do so. Treaties and understandings of the most vital importance were shrouded in the utmost secrecy. The lives of millions of men were pledged to policies that they knew nothing about. It is impossible to conceive of a system more at variance with the spirit of democracy.

Nothing better illustrates the nature of secret diplomacy, nothing so well shows the necessity for a complete change in the intercourse of nations, as the outbreak of the war in the summer of 1914. The war originated in secrecy and its origins were hidden from the public view until the three great Continental empires passed into history. It was not till the war was over that we came to possess exact information about the diplomatic actions of the crucial month of July, 1914. Public opinion all over the world was not only poorly informed, but as we now know badly misinformed about vitally important decisions. Democratic government works through public opinion, but if that opinion is not informed, it follows that democracy ceases to function as a controlling agency. There is no argument in favor of the League of Nations and the newer method of diplomacy which it is organizing so powerful as a knowledge of what really happened in July, 1914. Briefly the facts are these.²⁸

At the time the Archduke Ferdinand and his wife were murdered at Serajevo, the Austrian foreign office was bent upon re-opening the Balkan question, and under the direction of the

²⁸ For a more complete account see Appendix B.

foreign secretary, Count Berchtold, a memorandum had been drawn up by Baron Flotow, dealing with Bulgaria and Roumania, and the necessity for diplomatic checks upon south Slav aspirations. The headstrong Berchtold seized the opportunity which the crime afforded for a final reckoning with Serbia. He sent the Flotow memorandum to Berlin and along with it an autograph letter from Francis Joseph to the Kaiser, in which he outlined Austrian policy. "The crime against my poor nephew has resulted directly from Russian and Serbian Pan-Slav agitation with the sole purpose of wrecking the Triple Alliance and disrupting my Empire. . . . For the future the aim of my government must be to isolate and weaken Serbia. . . . Agreement between Serbia and us is out of the question, and the peace policy of all European monarchs is threatened so long as this centre of criminal agitation remains unpunished in Belgrade." When the Kaiser received the memorandum and the letter of July 5th, he assured the Austrian envoy, Count Hoyos, that Austria could rely upon Germany's full support, and that action against the Serbian rascals should not be delayed. The next day the chancellor, Bethmann-Hollweg, officially defined Germany's position in these words, "Austria must judge what is to be done to clear up her relation to Serbia; whatever Austria's decision may turn out to be, Austria can count with certainty upon it that Germany will stand behind her as an ally and friend." This is the much talked of "blank check" which the German government gave, and which resulted in their losing control of the situation. In the previous two years the French government had repeatedly assured the Russian government that should war arise over a Balkan question, France would faithfully perform her duty as an ally. In fact M. Poincaré had gone so far as to encourage the Tsar's government to find a *casus belli* in the Balkans. After all, the real blank checks were the Dual Alliances themselves, and the mistake of Bethmann, and the intrigue of Poincaré is now likely to be over-emphasized.

On July 7th the German reply was read by Berchtold to the Austrian Crown Council. All present agreed, with the exception of Tisza, that a diplomatic success would not be sufficient, and that with Germany's approval, the moment had come to end once and

for all the Serbian danger. In a second Crown Council on July 19th the text of the ultimatum to Serbia was approved. It was presented at Belgrade on July 23rd. The terms of the ultimatum were not known in Berlin until the evening of the 22nd—too late for the German ministers to make any modifications. Twice did Jagow, the German foreign minister, endeavor to obtain the terms, but was foiled by the Austrian authorities. When it was presented to him, Jagow reproached the Austrian ambassador for not giving him the information sooner, and declared that the note was “too sharp.”

The Austrian army was mobilized against Serbia on the 25th, before the Serbian reply had been examined. While that reply surprised everyone by its moderation and the length it was willing to go in meeting the Austrian demands, still the failure to do so completely led to the Austrian declaration of war against Serbia on the 28th.

Sir Edward Grey proposed mediation on the 26th of July, and his offer was promptly accepted by France and Italy. The German government replied that it would only take part in mediation at Austria's express wish. Up to this time Bethmann-Hollweg hoped that the war could be localized. The next day Sir Edward Grey made a second proposal of mediation. By this time Bethmann had changed his mind about the war being localized, and on the night of the 27th he telegraphed the German ambassador at Vienna to notify Berchtold that Germany could not refuse the rôle of mediator. In spite of telegrams from Berlin demanding restraint, the Vienna cabinet issued its declaration of war against Serbia on the 28th. Russia answered by mobilizing against Austria, and from this time on Russian military measures made of no avail the German government's attempts to keep the peace. The control of the situation in Berlin passed out of the hands of the civil authorities into the hands of the military, with whom speed became a matter of the utmost importance in the execution of the Schlieffen plan. The same thing happened in Petrograd following the Austrian declaration of war on Serbia. The Russian generals were determined to beat the time-table in the mobilization of the Russian army, and thus strike a decisive blow against the

Austrian forces before the German armies could finish the French. It was the Russian general mobilization which made a general European war inevitable. "The world war was precipitated by the action of Russia at a moment when conversations between Vienna and Petrograd were being resumed, when Bethmann-Hollweg was at length endeavoring to restrain his ally, and when the Tsar and the Kaiser were in telegraphic communication."²⁹

Throughout these critical days the Austrian attitude was uncompromising. The Crown Council of the 31st rejected the Anglo-German proposal that the campaign against Serbia should halt pending mediation. The British idea of a conference of the great powers was rejected, the idea being so odious to the Austrian Prime Minister Stürgkh, that he declared against even the appearance of accepting it. Berchtold held to the even tenor of his reckless way, declaring that anything short of a military decision would be a tinsel display (*Flitterwerk*), and that the attack upon Serbia would have to come later under more unfavorable conditions.

Germany answered the Russian general mobilization of the 30th by her ultimatum to Russia on the 31st, demanding the cessation of the general mobilization within twelve hours. That this Russian action would provoke a declaration of war by Germany was well understood in Europe. On July 25th Sir George Buchanan warned the Russian Foreign Minister, Sazonoff, that Germany would probably answer Russian mobilization by an immediate declaration of war. Furthermore, it was understood by the French and Russian staff experts that mobilization was the equivalent of war.

RESPONSIBILITY FOR THE WAR

Soon after the outbreak of the Great War, each of the belligerent governments published a book of carefully selected documents. The purpose was the same in every case, to prove the innocence of the publisher and the guilt of the enemy. These official papers, skillfully chosen to make out a case, naturally

²⁹ Gooch, *History of Modern Europe*, p. 547.

furnished for most people the evidence, on which their judgment guided by their bias rested. The passions of war intensified the conviction with which those warped judgments were held, the patriotic citizen feeling that it was his duty to believe exactly what his government wanted him to believe. The time has now come for that deepest of all loyalties, loyalty to the truth as we see it. In that spirit we have examined the events of July, 1914, and we have been forced to modify our judgment in some important respects.

The disclosures since the war make it abundantly clear that Austria's responsibility was far greater than that assigned to her at the time. She is the most responsible of all the powers. It simply is not true that the German government, bent upon war, forced an unwilling Austria into action. On the contrary the Austrian Foreign Office, dominated by the purpose of the military party, dragged an unwilling German government into war. There is no escaping the conclusion that Bethmann-Hollweg and Jagow as the official representatives of German foreign policy did not want war. The responsibility of Russia and France is far greater than was known or suspected at the time. Russia is directly responsible for precipitating the conflict by general mobilization, and France is responsible for not making the attempt to hold Russia back. Her immediate responsibility is greater than that of Germany, for the records show that the German government did make an honest attempt to hold back Austria, while they show that France made no such attempt with Russia. The responsibility of Great Britain is the least of all.

THE CAUSES OF THE WAR

To sum up, the causes of the war were many and complex, but they can be classified under four heads; economic imperialism, nationalism, preparedness and insecurity, and secret diplomacy. The war was undoubtedly a conflict of rival imperialisms, and nothing did more to create the war mind than the incessant striving for the prizes of empire and trade. At the same time, the imperialistic struggle would not have become intense without the

rabid spirit of nationalism which produced the European anarchy. It was the European anarchy which led to armaments and more armaments, and as the feeling of insecurity grew, alliances and ententes were formed, so that by 1914 Europe was divided into two hostile camps, and the war that followed may be described as a gigantic struggle for the balance of power in Europe. All these causes are formidable enough, still the great war might have been prevented had diplomacy been open, so that there could have been an appeal to the world's opinion. Had there been an open conference undoubtedly Austria would have been restrained.

The solution of the problem of war is the first business of world politics to-day. We shall tackle that problem in our concluding chapter. It is a matter of vital importance to the American people because of the growth of American industry and commerce. For us world organization is a question of supreme importance, but our traditional attitude has made it appear to many among us as a matter in which we have little interest, or at best a sentimental one. Such an attitude of mind projects the past into the present. To understand this we shall sketch the development of American foreign policy.

ADDENDUM

All that is necessary for the purpose of this book is that the reader should accept our conclusions with regard to the causes of the World War. However, since some of those conclusions are quite contrary to popular notions, we have decided that they ought to be given with more detailed, supporting evidence. The reader, therefore, who wants more historical evidence, or who doubts the accuracy of our conclusions, is referred to Appendix B where the diplomacy leading to the War is reviewed at some length.

CHAPTER IX

Commercial Growth and the Development of American Foreign Policy

DIPLOMATIC history shows that the foreign policy of any country is directly connected with its geographical position. Wherever we turn in modern times, we see abundant illustrations of this truth. The foreign policy of Great Britain aims at keeping the "balance of power" in Europe, for Britain is an island in close proximity to the continent, and a dominating continental power would threaten her security; hence the almost automatic shifting of her policy to meet a changing situation. So long as France was the dominating power on the continent, British policy aimed at restraining France; when Germany snatched this ascendancy from France, British policy slowly but inevitably turned against her; now that France has again attained to the position of the first military power in Europe, we shall expect English policy towards her to swing around from friendship to opposition unless Europe does the wise thing, and effects a reorganization of her international life, so that co-operation of all the powers will replace the antagonism of two great groups. The realignments which England has been forced to make in her efforts to maintain the balance have brought upon her the reproach of "perfidious Albion," and yet her policy has been clear and consistent, a policy, like all foreign policies hitherto, dictated by national self-interest and a due regard for national security. French policy from Louis XIV to Napoleon aimed at continental domination, for the security and the well-being of France seemed to demand her hegemony in Europe. The Germany of Bismarck, for precisely the same reasons pursued the same policy. The age-long demand of Russia's geographical position has been for a warm-water outlet open all the year to Russian commerce, hence the striving to reach Constantinople and the Straits.

OUR POLICY OF ISOLATION

Geographical considerations apply with equal force to the development of our foreign policy. During the War of Independence we allied ourselves to France, a policy for the time being mutually advantageous. But, in spite of French help, we did not succumb to French influence. The leaders of the colonists were of English stock, and had a racial dislike for the French which had been intensified by the colonial wars and the uses which the French made of the native red men. Besides this, commercial connections in spite of the war were still strong with the mother country, and commerce with England actually increased. But the decisive factor in shaping our foreign policy was geographical position; "isolation" was the "natural" policy. Early in the debates of the Continental Congress this came out clearly: the alliance with France would be a temporary matter; we were fighting for independence in the full political sense of the word; we were to free ourselves not only from English control, but also from the European system completely. Isolation was a policy coeval with the founding of the United States. Washington in his Farewell Address put forth no new doctrine, but only stated more definitely and with the weight of his authority a well established policy. Not only that, but the situation Washington had to deal with was constantly in his mind. England and France were engaged in a mighty struggle, and Washington did not wish to have us involved in it. He was too wise a man to attempt to lay down for all time the policy which this country was to pursue in foreign affairs. On the contrary, he recognized the need for flexibility in foreign policy when he advocated "temporary alliances" to meet "extraordinary emergencies." Nothing could illustrate better the extent to which the immediate European situation pressed upon the mind of our first President than the letter which he wrote to Patrick Henry in October, 1795, offering him the secretaryship of State. After stating that his object had been to keep the United States free from the influence of other nations, he went on to explain: "I want an *American* character that the powers of Europe may be convinced that we act for *ourselves*,

and not for others. This in my judgment, is the only way to be respected abroad and happy at home; and not, by becoming partisans of Great Britain or France, create dissensions, disturb the public tranquillity, and destroy, perhaps forever, the cement which binds the Union." Washington's purpose was to show the world that we were really independent, and that we would be guided in our foreign policy by a strict regard for our own interests. The struggle of Britain and her European allies against Revolutionary France had deeply divided American opinion; most of our people sided with England for the simple reason that blood is thicker than water, while others felt that we were indebted to France for her help in our War of Independence. With opinion so divided, Washington's policy of neutrality was the only sound course. In recent years there has been too much of a tendency to dissociate Washington's words from connection with the immediate problems with which he was dealing, and to assume that they were meant to cover every possible contingency.

Our situation at the end of the Eighteenth Century made the policy of isolation perfectly intelligible. Our colonial history had taught us that every disturbance in Europe made itself felt sooner or later on this side of the water because of our political connection with Great Britain. A series of colonial wars had disturbed our peace, and naturally we wished to free ourselves from Europe's difficulties by cutting completely our political connection with Europe. We had every reason to do so. We were thinly populated along the Atlantic coast and needed peace to grow in population and wealth. And there was the great West calling to the pioneer to cross the mountains and turn to account the fertile valleys and plains. Here was a call to real adventure, to hardship and struggle. The young nation heard this call to conflict with old nature, and resolute spirits went forth to beat her into submission and make her serve the needs of an advancing civilization. How unreal and unnecessary seemed to them the troubles of the feudal old world with its dynastic compacts, pragmatic sanctions and ruthless partitions! At the end of the Eighteenth Century we were geographically and mentally far apart from the European nations. The founders of our republic knew full well

that they were starting a great political experiment and that they were starting afresh in the new world with a God-given opportunity for the advancement of democracy and political equality. There were no feudal privileges here to be uprooted, nothing to hamper equal opportunity, if only they could free themselves from the political entanglements of the old world. Thus political isolation was necessary, if the new republic was to develop naturally and untrammelled along the paths of democracy. Leaders as far apart as Hamilton and Jefferson in matters of domestic concern were agreed as to the fundamental principle of foreign policy.

But early in the Nineteenth Century we found that the policy of isolation is a difficult one to carry out in practice. The first quarter century under the new constitution was filled with years of difficulty growing out of the struggle of Europe with the French Revolution and Napoleon. We were subjected to harassing trade restrictions by both the British and French. Finally the British made matters so unbearable through their control of the seas that we declared war upon them in 1812. The Napoleonic struggle was on such a vast scale that in spite of our eager desire for peace we were led to a very reluctant participation in it. With the downfall of Napoleon European complications seemed to pass for a time, and foreign affairs did not seriously engage us until 1823.

THE MONROE DOCTRINE

In that year, as is well known, the Holy Alliance threatened to aid Spain in the recovery of her South American Colonies, and Russia attempted to extend her jurisdiction in the Northwest. At that time we were favorable to democratic, revolutionary movements, and were particularly pleased with the turn of events in the South American republics, for they furthered our democratic ideal, added to our sense of security, and freed the new world completely from those European entanglements which Jefferson warned our people about. We had even hoped that the democratic movement would succeed in Spain itself, but the movement was

put down by the Holy Alliance (Austria, Prussia and Russia) with the aid of a French army. The Alliance had previously suppressed liberal movements in Naples and Piedmont, showing itself the instrument of the conservative reaction in Europe. Its next move would be in the direction of South America, but before we were alive to the situation, the British Foreign Minister, Canning, had correctly foreseen this stroke. England was not a member of the Holy Alliance and did not approve of its purpose; furthermore she wished to put a check to its power. So Canning decided to call in the new world to redress the balance of the old and on September 18, 1823, suggested to our minister, Richard Rush, that the United States should co-operate with Great Britain in preventing European interference with the Spanish-American colonies. Monroe, after consulting Jefferson and Madison, favored a joint declaration with Great Britain, but John Quincy Adams, Secretary of State, pointed out that a unilateral declaration with England's announced support would achieve the same result and at the same time be in harmony with our previously declared policy, which was beginning to have the sanction of tradition. The statement of policy as formulated by Adams was announced by President Monroe in his annual message to Congress of December 2, 1823.

The famous doctrine declared that: "In the wars of the European powers, in matters relating to themselves, we have never taken any part, nor does it comport with our policy to do so. It is only when our rights are invaded or seriously menaced, that we resent injuries or make preparations for our defence. With the movements in this hemisphere we are, of necessity, more immediately connected, and by causes which must be obvious to all enlightened and impartial observers. The political system of the allied powers is essentially different in this respect from that of America. . . . We owe it, therefore, to candor and to the amicable relations existing between the United States and those powers, to declare that we should consider any attempt on their part to extend their system to any portion of this hemisphere as dangerous to our peace and safety." With regard to the South American republics Monroe went on to state more explicitly: "We could

not view any interposition for the purpose of oppressing them, or controlling in any other manner their destiny, by any European power, in any other light than as the manifestation of an unfriendly disposition toward the United States." In dealing with Russian activities in the Northwest, Monroe laid down a second dictum closing the American continents to further colonization: "The occasion has been judged proper for asserting, as a principle in which the rights and interests of the United States are involved, that the American continents, by the free and independent condition which they have assumed and maintain, are henceforth not to be considered as subject for future colonization by any European powers."

There could be no doubt about the purpose of Monroe's message. We would stay out of European affairs, and Europe must stay out of ours. The policy was an extension of the idea of isolation and had for its object the fundamental purpose of self-preservation. It was not designed primarily to protect the South American republics but to protect ourselves and to keep the reactionary system of Metternich away from our shores. During the Nineteenth Century the doctrine received an extended interpretation. President Grant in his first message declared that colonial possessions could not be transferred from one European power to another: "When the present relation of colonies ceases, they are to become independent powers, exercising the right of choice and of self-control in the determination of their future condition and relations with other powers." In his well known Venezuela message of 1895, President Cleveland declared that the Monroe doctrine applied to boundary disputes and induced Great Britain to arbitrate the question, thus establishing a precedent. President Roosevelt, in his dispute with the German Government, declared that the Monroe Doctrine prohibited foreign nations from acquiring or holding territory even temporarily for the purpose of collecting debts and claims. Finally the "Lodge Resolution" of 1912 asserted that the control of any harbor or place of importance for naval or military purposes, by a company or corporation not American, was a matter of grave concern to us. Thus extended, the doctrine now means that no part of this hemisphere is subject to outside control, and should any other American state wish

to make a concession to another government not American or to a corporation subject to such a government, steps would be taken to prevent it.

Because we will not tolerate European intervention, we of necessity become the guarantor of the good behavior of the American Republics. Our responsibilities as the guardian of these republics were well summed up by President Roosevelt in his message of December 5, 1905. "We must make it evident that we do not intend to permit the Monroe Doctrine to be used by any other nation as a shield to protect it from the consequences of its own misdeeds against foreign nations," and further, "Chronic wrongdoing, or an impotence which results in a general loosening of the ties of civilized society, may in America as elsewhere, ultimately require intervention by some civilized nation, and in the western hemisphere the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of international police power." At various times this policy has been applied to Cuba, Santo Domingo, Panama, Nicaragua, and Haiti, and we have been pleased to consider them wards of the United States, and to put them through a course of discipline designed to improve their behavior, even when they considered such a course either unnecessary or undesirable. The danger is that such a policy may degenerate into imperialism.

For a century the Monroe Doctrine has been the keynote of our foreign policy and the most revered tradition of our national purpose in our relations with other nations. The Doctrine was but a logical extension of Washington's principle of political isolation and Jefferson's insistence on freedom from European entanglements. The dominating idea in the minds of Adams and Monroe undoubtedly was that of reciprocal non-intervention: we should keep out of European affairs and at the same time insist that the European powers should not interfere in American affairs. The doctrine contemplated two separate and distinct spheres of influence. In spite of our difficulties during the Napoleonic Wars, such a policy seemed workable, for we were indeed far away from Europe in those days when the sailing ship was the one

and only means of communication. But, as the century passed, conditions changed, and our policy was of necessity modified. While we successfully eliminated European intervention from the western hemisphere, we came to play an important part in European affairs. Our participation in European matters was begun by way of the Pacific and Asia. In 1898 we entered upon the stage as a world power. Samoa, the Philippines, the "open door" in China, the Boxer Rebellion,—all these things brought our policy into contact with the purposes of imperial powers of Europe, in a way never contemplated by Washington or Monroe. In more purely European affairs we took an important part: we sent delegates to the Conference at The Hague, and President Roosevelt saw to it that we were represented at the Algeiras Conference, as well, though we tacked on reservations to the decisions reached to the effect that we would not be responsible for their enforcement in Europe. Finally under President Wilson we played a decisive part in the Great War, *so that to-day the original doctrine of the two spheres stands modified by precedent beyond recognition.* Our present day policy is this: we will not allow European powers to intervene in American affairs, but we reserve the right to intervene in European affairs, if our interests require us to do so. We are firm for that part of the Monroe Doctrine which declares "America for the Americans," while we keep our hands free to deal with European or Asiatic situations as our interests demand. The inconsistency is more apparent than real; we are actuated to-day by the same purpose which filled the mind of Monroe, a due regard for our own interest.

It is customary for politicians to wrap up Washington's Farewell Address and Monroe's famous message in eloquent generalities, to treat them as though they were the products of pure reason, divine pronouncements from on high which were not for an age but for all time, and to end on a note of warning about tampering with the revealed word. But, is not such an attitude reactionary rather than conservative? Washington and Monroe were dealing with concrete situations, and they formulated their policies in the light of the indisputable fact that only affairs in the western hemisphere seemed to concern us vitally. A policy

of political isolation is feasible only when you have a very large measure of economic isolation, such as we had a century and more ago. At the present time a policy of political isolation and unconcern in the affairs of Europe is simply not practicable, because our prosperity has become too closely linked with sound economic conditions in Europe. We are learning the truth of this more and more every day.

What most Americans consider the central idea of the Monroe Doctrine, the idea that outside powers must not intervene in the affairs of the American continents, seems to us so natural that we usually overlook how essentially dogmatic and dictatorial our position is. That is true not only with regard to the European countries, but also in our attitude toward Latin American states as well. On occasion we have given the impression that American affairs were matters for the United States alone to decide. Thus in 1895, when Lord Salisbury courteously reminded our government that, "No statesman, however eminent, and no nation, however powerful, are competent to insert into the code of international law a novel principle which was never recognized before, and which has not since been accepted by the government of any other country," Secretary Olney went bluntly to the heart of the matter and declared that, "The United States is practical sovereign on this hemisphere, and its fiat is law on the subject to which it confines its interpretation." Naturally such a claim is not well received in the Latin American states; it hurts their pride and causes them to doubt our motives. Do we really want to protect them, or to exercise imperial sway in the western world? The course of the Spanish-American War made this seem for a time a practical question, for, whatever our people may have thought, the world got the impression that we had started upon an imperialistic career. Alive to the politics of Europe, South American observers fear the development of the same imperialist tendencies with us, and they put their own interpretations on the history of our dealings with Mexico, Spain, and Panama; for example, our war with Mexico has always seemed to them a highly successful war of conquest and annexation. But it is interesting to note in this connection that Monroe made no promise as to our

conduct. While closing the American continents to colonization, the famous Doctrine was not a self-denying ordinance limiting the expansion of the United States. But, according to Garcia Calderon, the South American Republics fear the policy of "peaceful penetration" more than that of open conquest. They fear the action of high finance and big business, and fear that our people may unwittingly allow concessionaires a free hand in the pursuit of a policy of exploitation. That is what they have in mind when they speak of the "conquista pacifica" and the "North American Peril." Nor are such fears wholly without foundation. Under the Lodge Resolution we will not permit certain concessions to non-American countries or corporations; with the Venezuela precedent of 1902 we will not permit the forced collection of debts. It is but a step from this to the prevention of European concessions altogether while we favor our own. Then we may hamper the collection of debts and damages by European corporations and companies while we actively aid such collection on the part of our own concerns. Advancing slowly here and there, by such tactics, it is feared that we may come into economic domination, and eventually into political control.

Such a policy would not pass unchallenged by the European powers. So far our dogmatic assertions have been passed over in silence, and we have had no serious difficulty with any European nation over the Doctrine for two main reasons: (a) European complications—Seward ordered the French out of Mexico on the eve of the Austro-Prussian War, and Britain arbitrated the Venezuela boundary dispute without further hesitation after the Kaiser sent his telegram of congratulations to Kruger; (b) our open door policy, which gave ourselves no particular commercial favors, and which gained for us the support of the British fleet because commercially England was the chief benefactor. Only a continuance of this policy of equality and fair play in trade matters will make our traditional policy acceptable to Europe and the Latin American peoples themselves.

To-day the Monroe Doctrine is ill-defined and vague. It is capable of being expanded by all sorts of sudden interpretations, either by Presidential Message or Senate Resolution. The Doc-

trine now lacks the sharp definition of the two spheres which Monroe gave to it, and has become arbitrarily one-sided. Not only that, but we have given the Latin American states to understand that we hold in reserve a certain veto over their dealings with foreign powers. In short, we seem to be preparing for ourselves no end of complications and difficulties. On the other hand, our bark seems to be worse than our bite. For example, leading Republicans have denounced the League of Nations in unmeasured terms and have warned us against European entanglements. At the same time they have not protested against the South American republics joining the League, nor have they asked that a Republican Secretary of State should do so officially to these wayward republics. They would probably consider such action on our part as an intolerable interference with the sovereignty and independence of action of the Latin American states. But, is not such interference inherent in the Lodge Resolution? The South American states were quick to join the League of Nations even while we hesitated. Perhaps one of the reasons why they did so was to show to the world their independence of action. Not only that, but in the League they have secured a *counterpoise* to those features of the Monroe Doctrine which raises justifiable questions as to our purposes. Should they become involved in disputes with us, they have gained the advantage of invoking the agencies of the League for adjudication or conciliation.

We can of course allay Latin fears by making the Monroe Doctrine over into a policy of co-operative action for the maintenance and furtherance of the peaceful development of the western hemisphere. In a halting, general way the Pan-American Conferences are tending in this direction. Nothing could be better for our moral influence in the world than the creation of a Pan-American partnership to deal with those matters of a general nature having to do with the peace and safety of all the states of our hemisphere. Should a critical situation again arise, such as occurred in 1895 and 1902, we should do well to consult the governments of the leading South American republics—Argentina, Brazil, and Chile—for the purpose of giving to the world a joint declaration covering the question at issue. Such a declaration,

signed by our Secretary of State and their ambassadors at Washington, would add materially and morally to the strength of our position. Only by joint action will we ever be able to free the minds of South Americans from the suspicion that we may be hiding imperialistic aims under the cloak of the Monroe Doctrine.

HOW OUR CHANGED ECONOMIC POSITION AFFECTS OUR FOREIGN POLICY

There are still those who think the policy of political isolation is the part of wisdom for us. As we listen to them, we are profoundly impressed with the fact that they have given no thought to the most important practical problem of politics in our day, the relation of economic considerations to public policy. When Washington argued for isolation as the guiding principle of our foreign policy, he could rest his case on the all-important fact that we did enjoy a very large measure of economic isolation, and, therefore, the well-being of no considerable section of our country depended upon the conditions prevailing in Europe. But at the present time the situation is entirely different. Whether we wish to shut our eyes to conditions in Europe or not, we will nevertheless have them forced upon our attention through their effects upon the lives and well-being of a large section of our own people. Where are we going to market our surplus agricultural product except in Europe? Economic decadence there means the loss of valuable markets, the backing up of surpluses here with the consequent depression of the price of farm products, and this in turn means agrarian radicalism in the West which makes itself felt in domestic politics. There is only one effective way to have political isolation as the fundamental principle of our foreign policy, and that is to restore economic isolation, to undo the commercial advance of a century on which our prosperity to a considerable extent has depended. But this idea is preposterous for it would mean widespread distress in the South and West. Consider only two crops: cotton and wheat. In the fiscal year 1922-23 we exported 55 per cent of the cotton crop and 30 per cent of the wheat crop. Those who want real isolation have a

pretty problem on their hands when they try to persuade more than one-half the cotton planters and a quarter of the wheat farmers to change their occupations. As a matter of fact the isolationists who oppose international co-operation advocate no such thing. They are merely actuated by a romantic attachment to our traditional policy of non-entanglement in the affairs of Europe. They do not possess a sufficiently realistic grasp of our present-day situation to realize that we are already entangled through our commercial connections.

It is sheer folly to suppose that what goes on in Europe is no concern of ours. That is an idea projected into the minds of the present generation from the past, and it has been fastened upon a conservatively minded people with all the strength of a venerated tradition. It was born at a time when our political ideals of democracy and equality were diametrically opposed to the then prevailing system in Europe, the Metternichian reaction of Monroe's day with its reverence for the divinity that doth hedge a king and its artificial insistence upon judging a man by the guinea stamp of rank. To-day the political situation is completely changed. The contamination which we fear from Europe is radicalism, not conservatism. Quite correctly, it would seem, we have discerned in Europe an atheistical disregard for the respect and reverence rightly due to property. Just as American political ideas affected European politics in the Nineteenth Century, so will European ideas in the present century react upon our economic and political views. Thus we have very good reasons for using our influence towards establishing stable conditions in Europe. In our day the one and only safe road away from revolution or the radicalism which we fear is through economic well-being. Unless the economic life of Europe is restored and kept in healthy condition, we may as well expect revolution or at least radical experiments there, directed against the capitalist system which is widely condemned by Europeans as the author of their woes. If our conservatives wish to curb at its fountain head the radicalism which they fear, they should not waste their energies in unpractical denunciation, but use them in creating a sentiment favorable to positive action on the part of

the government, which would encourage the administration with the support of Congress to use the influence and the power of this great country towards strengthening those agencies already working in Europe to check and remedy the economic decay. In the present situation such a policy is sound American policy, and will be an immense help not only to Europe but to ourselves.

We have always had a policy towards South America, and we have considered that necessary because of our geographical position. Yet, there are parts of Europe that are geographically closer to parts of this country than are certain sections of South America, and with regard to transportation and communication we are now also much closer in point of time. Both culturally and economically we are much more concerned with Europe to-day than we are with South America.

We have taken a lively interest in Asiatic affairs. We have announced an open-door policy with regard to China. When our interests in the Pacific seemed threatened, we called the Washington Conference to deal with them. We have a policy for the far east of Asia; we demand equal economic opportunity there, and we frown on external interference with the affairs of China. And yet there are politicians among us who think it is the part of wisdom to have such a policy and leave it unrelated to a positive and definite European policy. The whole history of modern economic imperialism shows that such a course is dangerous. When our capitalists and financiers, encouraged by our policy, really start concession hunting in earnest, they will inevitably come into contact with European concessionaires, and against the European they will appeal to our national sentiment, just as Englishmen, Frenchmen, and Germans did against each other in Africa and Asia, thereby creating a state of mind favorable to war. Let us be quite clear on this point. It is not what John Hay wrote about China or what Mr. Hughes told the Washington Conference that will create the situation in the Far East with which our coming generation will have to deal; it is what our merchants, our railway builders, our mine operators, our bankers actually do that will make the problem. What are we to do about economic imperialism? Our government can and

should declare that our financiers and industrialists engage in Asiatic enterprises at their own risk. But this is not enough, for if American and European interests clash in the Far East, our capitalists will appeal to national sentiment, arousing national jealousies and national hatreds, and thereby sow the seeds of conflict. Diplomatically our government should throw the weight of its influence behind the liberal forces working in Europe to modify the system of capitalistic imperialism in such a way that co-operation will take the place of rivalry. That is really what we want; this is the true meaning of our demand for the open door and equality of nations in trade opportunity. But, in this stubborn, old, practical world of ours those things will not come by pious wishes; they must be organized, and organized internationally. Unless we are willing to co-operate with the European powers to this end, we should abandon the open door policy and withdraw from Asia, for otherwise in the immediate future American and European interests will clash there. We may regret it, but it is the nature of our modern world that what we do in the Far East will involve us in the affairs of the European nations. The calling of the Washington Conference showed that Republican leaders, in spite of what they said about European entanglements in connection with the League of Nations controversy, understood this full well. The Four Power Treaty gives a mutual guarantee of the security of each country's insular possessions in the Pacific, and provides for conference and consultation in case of differences of opinion between the signatories or a signatory and an outside power. The Nine Power Treaty proclaims the sovereignty and independence of China, guaranteeing her territorial and administrative integrity. It also assures free and equal opportunity for commerce and industry, and binds the signatories not to support their nationals in seeking special favors. As a result of the Washington Conference we now have a very definite Asiatic policy, and we have entered into specific agreements with the leading European powers and Japan. We have apparently advanced to the point where we do not fear being entangled with European nations over Asiatic questions. What we need further to make this regional understanding effective is

to use our power and influence towards creating a peaceful and stable Europe. Should another great war break out in Europe, what would be left of the work of the Washington Conference? Such a war would inevitably develop into a world war with a consequent unsettling of world conditions. If it is a good thing to do what we can to prevent that war from arising in the Pacific, it is equally good policy to prevent it from arising in Europe or anywhere else.

It is strange that people who believe that we should have a South American policy and also an Asiatic one should be blind to the fact that a policy towards Europe founded on present-day conditions is of even greater importance. A new Washington conference dealing with European questions after the manner of that former great gathering would meet with the bitter opposition of those who still think that our traditional policy of isolation and detachment from the affairs of Europe is the true one. But the reader of trade statistics knows full well that we have a larger stake in the stability and the peace of Europe than that of any other part of the globe. Consider our export figures for the past four years:

Grand Divisions	1921-22	1922-23	1923-24	1924-25
Europe	\$2,067,027,605	\$2,035,306,462	\$2,202,118,278	\$2,660,133,840
No. America .	896,951,012	1,045,606,524	1,043,328,879	1,142,399,291
So. America .	190,827,828	258,684,390	281,457,638	360,410,788
Asia	480,856,406	436,900,667	562,554,866	457,617,173
Oceania	83,803,197	121,764,539	157,468,748	167,002,281
Africa	51,715,549	58,815,351	64,728,082	77,268,086
Total	3,771,181,597	3,957,077,933	4,311,656,491	4,864,831,459

There are some interesting things to be learned from this table. The world's demand for our goods is impressive and we should note well of all the continents Europe is by far our best customer: our sales to Europe were eight to ten times greater than those to South America and more than four times those to Asia. In the light of these highly significant facts is it common-sense or good business for us to be highly interested in the peaceful development of South America and Asia, and at the same time

unconcerned about the fate of Europe? Is it not to our own advantage that we should use all the influence that we possess in helping to organize a peaceful Europe? Would it not be good policy for us to take the League of Nations and endeavor to make of it an effective instrument for peace? If to the above figures we were to add the total imports, we should find our international trade in the bad year of 1921-22 amounted to nearly six and one-half billions, and in 1922-23 to nearly eight billions of dollars. Is it a good thing that trade so extensive should take place in a world of international anarchy? Do not our economic interests require that we help create an international organization with real international law to protect those interests?

Why are we Americans so fond of our traditional policy of isolation? Simply because most of our people feel that it is a safeguard against our being involved in European wars. But is it a safeguard? We had isolation enough up to 1914; nevertheless we were drawn into the war. If another war were to break out in Europe, have we the slightest assurance that isolation before the outbreak would keep us from being involved? On the contrary have we not good reasons for thinking that we should become implicated? Consider the trend of modern warfare. In the next war there will be far greater and more ruthless use of the submarine and the airplane, with a consequent greater invasion of neutral rights. Who can say that through it all we shall maintain a calm and impartial attitude? Judging by history, it is reasonable to suppose that we shall become bitter partisans, and that our pulpit and press will urge us on to a crusade for the exaltation of justice and right. There is only one safe way to keep the United States from being involved in another great European war, and that is by making such a war impossible. Have we the knowledge, the wisdom, and the practical idealism equal to the task?

CHAPTER X

The Economic Lesson of the War

UNTIL the signing of the Locarno agreement there was a widespread feeling in America that Europe had learned nothing from the war; that we had still to deal with the same old aggressively imperialistic and nationalistic Europe, and to say the least, in the Versailles Treaty and the attempts to enforce it, there was much to justify this view. That, however, was the immediate result of a long and bitter struggle which aroused all the worst passions of hate born of the war's agony and cruelty. The Treaty of Versailles was a product of the war psychology. With the passing of time passions are cooling, and the outstanding lessons of the war will be learned in this calmer and more reflective mood, for after all, the years which have followed the Armistice have been ones of widespread disillusionment.

Those with opposite hopes and fears have been equally disillusioned; those who hoped for great economic gains from the war, and those who looked immediately for an era of peace and justice in international affairs.

It was an axiom of European statecraft that the winners of a great war would gather the fruits of victory in the shape of commerce, colonies, and indemnities. As far as commerce is concerned all have suffered, victors and vanquished alike. Naturally the country with the greatest international trade has suffered the most, and to-day the British people realize that the loss of their markets in central Europe has greatly hampered the economic recovery of Great Britain. Germany's colonies were taken from her and for the most part handed over to the British, but they have brought the British no national profit. The reason for this is plain; even should the British establish with these colonies as good trade relations as the Germans had before the war, the trade

thus gained would be a mere bagatelle compared with that lost with Germany herself. In the year of 1912 the direct trade of Great Britain and Germany with each other amounted to £110,410,919; in the same year the total trade of Germany with all of her colonies amounted to only £5,510,000.¹ Thus her trade with Great Britain was twenty times more valuable to Germany than all the trade with her colonies. In the year of 1913 the Anglo-German trade amounted to £121,088,000 while in the year of 1923 it amounted to £58,600,000. As the British Board of Trade figured that prices were 85 per cent higher in 1923 than in the year before the war, on the 1923 price level the trade of 1913 really amounted to approximately £191,000,000. Thus we see that there was in 1923 a loss of trade amounting to £132,000,000 in terms of the prices prevailing in that year. Add to Britain's economic woes the loss of trade due to the breakup of the Austro-Hungarian Empire and the régime of high protection resulting from the rejuvenated nationalism of the succession states and the situation which war and revolution had produced in Russia, and it is easily understood why Great Britain has had to struggle with an industrial depression and an unemployment problem of unparalleled severity. If the outspoken imperialist who wrote the leading article for the *Saturday Review*, September 11, 1897, is still living, he is the most disillusioned of men. In the light of present-day facts, consider his teaching, "In the Transvaal, at the Cape, in Central Africa, in India, and the East, in the islands of the Southern sea, and in the far Northwest, wherever—and where has it not?—the flag has followed the Bible and trade has followed the flag, the German bagman is struggling with the English pedlar. Is there a mine to exploit, a railway to build, a native to convert from bread-fruit to tinned meat, from temperance to trade-gin, the German and the Englishman are struggling to be first. A million petty disputes build up the greatest cause of war the world has ever seen. If Germany were extinguished to-morrow, the day after to-morrow there is not an Englishman in the world who would not be richer. Nations have fought for years over a city or

¹ Statesman's Year-book 1914, pp. 952-961.

a right of succession, must they not fight for two hundred and fifty million pounds of yearly commerce? . . . England has not awakened to what is alike inevitable and her best hope of prosperity. *Germaniam esse delendam.*" Unfortunately the peace-makers dictated too much of this philosophy into the settlement, but, when British statesmen perceived the results of the Carthaginian peace, they attempted to put a check upon its execution by France, and so far from wishing the destruction of Germany, they now hope for her economic reconstruction. It is not possible to conceive of a more complete exposure of the fallacy of economic imperialism.

In the above we have confined ourselves to the illusion that prosperity would come with victory, the illusion that England would prosper as Germany declined and vice versa. The idea should never have taken possession of any sane mind. A merchant will not prosper as his neighbors grow poor; Massachusetts will not prosper through New York growing poor; the manufacturing East will not prosper as the agricultural West declines in prosperity, but, here there is no nationalism to blind us! Were it not for that, we could agree as readily that England's prosperity, and France's too, would be increased by Germany growing wealthy, and conversely, as Germany grew poor their prosperity would decline. A wealthy Germany is simply a productive Germany who uses her units of production efficiently in the manufacture of things at low cost which Englishmen and Frenchmen want and for which they are willing to give things they can make to equal advantage. As nations grow wealthy, their interchange of things with each other increases, and reduced to lowest terms that is the meaning of good trade. Destroy the power of one country to produce, and you immediately destroy one side of the reciprocal demand, thereby causing the trade to cease. It should be noted that this economic argument against war is concerned with the very nature of trade itself. It is not a question of striking a balance between the cost of war, and the gains acquired; and then showing that on balance war does not pay. That argument was made long ago, but had little effect. To-day the economic argument goes deeper and concerns itself with the nature of trade between na-

tions in an economically interdependent world. The illusion of a profitable commercial war, the tenet of the capitalistic imperialist—that is the dogma which the post-war world situation has destroyed. This is the dominating fact in the outcome of the war, a fact destined to change decisively the nature of European international relations.

Another illusion which drew strength from the outcome of the Franco-German War, the illusion that the victors would indemnify themselves at the expense of the vanquished, that too has vanished from the eyes of everyone. France, possessed of undisputed military power, could collect only a fraction of the indemnities written into the Treaty. Again the nature of trade enters vitally into this question, as we saw in our study of the reparations problem.

At the opposite extreme are those disillusioned idealists who hoped that the war would usher in an era of peace and goodwill, and, who for this end threw aside their Christian charity and forbearance, laying to their souls the flattering unction that this was a war to end war. For the most part they were doomed to disillusionment, because their scanty knowledge of the causes of the war made the problem entirely too simple for them. The artificial simplification of a highly complex problem into the illusion of a single guilty nation whose defeat would leave the world to peaceful, unaggressive folks, was one of those myths which were sure to disappear with a truer knowledge of the facts. The terms of peace and the heartless realities of the European situation destroyed the illusion of a better world that was to be born out of the terrible travail of war. Out of their chagrin and disillusionment these idealists have learned an important lesson—it is only when the right attitude of mind is combined with clear insight into the facts of a situation that we can plan the reforms necessary for human welfare. We shall never get out of this valley of the shadow of death by catching here and there glimpses of the fair fields beyond; we need the hope inspired by those glimpses it is true, but we need also to know the way, the difficult path that leads over crag and torrent rill along which men do stumble and fall

and grow weary with the heat of day and lonely in the quiet of night; then, if our strength do not fail us, some day we shall attain that never never country which has lured on the pioneers of human betterment in all ages.

Among those disillusioned by the post-war situation are the European socialists, to whom war brought unexpected opportunities with the destruction of the power of venerable ruling houses and along with them the pomp and circumstance that goes with royalty. The European socialists realized that they had spent too many hours in the winsome fellowship of the teachings of Karl Marx, whose great heart went out in compassionate sympathy to the down-trodden victims of what he thought a needlessly cruel industrial system. Suddenly finding themselves possessed with power, they hardly knew what to do; there were railways to run, factories to manage, payrolls to meet, taxes to collect, thousands of the ordinary duties of life for which their emotional literature had not prepared them. Gradually disillusionment came upon them; capitalism might be bad, but somehow it delivered the goods, and so they had to make some sort of peace with capitalism. Even in Russia, Krassin was called in for counsel, and proceeded to restore a modified form of the wage system, giving to the worker remuneration greater than his productivity, at the expense of the peasant farmer. State capitalism had soon to supplement the original communism of the Bolsheviki. In agriculture there has been established what is practically peasant proprietorship. In the end it will be found that such a system is opposed both in spirit and in form to the most fundamental ideals of communism. Peasant proprietorship will nourish deep-seated individualism, and will in time create a conservative landed interest which will check and modify Bolshevist purposes. The communist leaders understood this, but they had no alternative. They were powerless to resist the age-long aspirations of the peasants, and were therefore compelled to bow to the will of the most numerous class whose acquiescence was required for their continual rule. At the same time the Bolshevik leaders exploit the peasants to the advantage of the city workers. This they do by means of price

fixing; for example, the price of wheat is placed considerably below the world price, while that of textiles is appreciably above the world price.²

Some day it may be seen that the war and the great disillusionment which followed were necessary, because of the present stage of education and training, to teach mankind important lessons. Most men learn their lessons in the bitter school of experience. The human race has advanced through disillusionment and disappointment before, and we may hope that it will turn to sweet account the uses of our adversity.

² See article by Mr. J. M. Keynes in the *New Republic*, November 4, 1925.

CHAPTER XI

World Organization—America and International Co-operation

WE have seen how the war grew out of an international condition which is best described as that of anarchy. The world of 1914 was one of sovereign and independent states, which were subject to no authority higher than themselves. In the last analysis they were restrained by no other consideration than the national good they were supposed to serve. In cases of conflict of interest between these states, decision was finally to be made by force, if the tortuous ways of diplomacy failed to bring an agreement. In every country the war was justified as a matter of self-defense and in the conditions prevailing such a defense could be made with a good show of reason. This condition of anarchy reminds Americans of early days of our "Wild West," where every man went armed and safety frequently depended upon a man's ability to fire the first shot. There comes a momentous day in history, July 31, 1914. The wild men of Europe, Germany and Russia, are armed to the teeth, Russia, slower of movement, reaches for her weapon; Germany fires the first shot! What is the alternative to such a situation? State government in California; international government in the world. Anarchy in California was replaced by political organization; anarchy in the world can be replaced only by similar organization. There is no short cut to world peace. Those among us who suppose that there is have made no examination of the real causes of the war. Their minds are still governed by the notion that the war in 1914 took Europe unawares and that it was due to the aggression of one particularly guilty nation. The historical review we gave was necessary for us to get our bearings; and now we propose to consider the prob-

lem of world peace in the light of what we now know concerning the causes of war, and from the viewpoint of the present economic position of the United States.

ECONOMICS AND WORLD ORGANIZATION

From the economic standpoint, world organization is now a necessity for all of the highly organized industrial nations. There can be no question that some form of world federation will be the ultimate solution of the problem of war, but federation means the creation of a new international or inter-political system, and such a system will not be set up in a year or even in a generation. All that we can hope to do at the present time is to make a beginning with the new order, and the world is now ripe, and never was ripe before, for the start of such an international system. The progress of the last hundred years has made the nation a part of a still wider community, the community of the whole civilized world, and it is to this wider social unit that the beginning of political organization must now be given, if social progress is not to be arrested and turned backward through the maintenance of the barbaric institution of war. In time world organization will eliminate the causes of war. It will curb the excesses of nationalism by giving to each nation a sense of the rights and obligations which it has as a member of this wider world community. This requires that the national state surrender a part of its sovereignty and its independence of action; but that is nothing more than what the state demands of the individual, for without it there is no such thing as liberty under the law. An organized association of states will see that the struggle for empire and trade is supplanted by co-operation in the development of backward lands. National security will be found in association under law, just as the individual to-day finds his security in the organized community which he serves and by which he in turn is served. With national security preparedness will cease, and the resources now wasted on armaments can be put to the service of education and other civilized arts. Lastly, a world parliament with open discussion will supplant the old diplomacy which worked in the

dark and sent men to death in the pursuit of policies of which they knew nothing.

All this, of course, sounds highly Utopian, but, then, every step in human progress has seemed Utopian to those who sit in the seat of the scornful. The abolition of slavery was an Utopian dream, so too the granting of political rights to women. The mention of a republic in France would have sounded like a disordered dream to a grand seigneur at the court of Louis XIV. "Perpetual peace is only a dream, and not a pleasant dream at that." Thus did Prussia's greatest general scoff at Prussia's greatest philosopher. The victor of Sedan had witnessed a remarkable development, the formation of the German Empire, but had missed its true inwardness. Did not the Bavarian King, on behalf of the German princes, offer the imperial crown to the King of Prussia? And, when a Wittelsbach made obeisance to an Hohenzollern, students of history began to wonder if in time any form of political federation was impossible. That you say was due to the recognition of common nationality. True, but that means the recognition of common interests, for our analysis showed that nationality was only a degree of community. When the nature of our interdependent world is sufficiently realized, world federation will pass beyond the Utopian stage and become a matter of practical organization. In a groping, halting way the League of Nations is moving slowly but surely in this direction.

SOVEREIGNTY AND THE MODERN STATE

At the present day social life embraces innumerable associations, all making various claims on the loyalty of the individual. The modern man is not only a citizen of the state, but the member of other associations, whose claims upon him may touch his life more intimately. The trade union or the business corporation of which he is a member may in the policy it pursues affect his life more definitely than the state. The loose identification of state and country makes clear thinking on political and social matters extremely difficult. Strictly speaking by "country" we mean the whole of the nation community, something far wider

than that which we mean by the state, the central association which upholds and enforces the system of rights and obligations accepted by the nation. France means a great deal more than the French state. It is the national community within which there are many associations, and the state is at most *prima inter pares*. Once the associational nature of the state is discovered the old conception of sovereignty, which rested upon a mistaken identification of the state and society, is seen to be out of touch with modern life. Many a man has served France without serving the state. There are a multitude of ways by which he can serve the national community which we call France. The historic conflicts between church and state throw a flood of light upon the nature of the problem. The most resolute of statesmen have found that there were loyalties which men consider of more binding effect than the loyalty to the state. Bismarck at the height of his power could not in the *Kulturkampf* force his will and that of the Prussian state upon loyal Catholics. In most modern countries statesmen have found it the part of wisdom to leave churches alone, while, on the other hand, churchmen have given up claims to a coercive power which is properly that of the state and the state alone. There is a clear difference in function which is recognized in practice better than it is in theory. The state, it is true, is the guardian of the community, but in the exercise of that supremely important function it must be careful not to destroy the spontaneity of voluntary associations. It must recognize that they too serve the community in an equally important way and that they should be free to exercise their functions for the good of the community. *The modern problem of sovereignty is becoming more and more that of the relation of the state to other associations.*

We have entered upon the stage of group action. To-day men unite in the pursuit of interests, and the problem of political freedom has assumed a new aspect. To the older political writers the problem was that of protecting the individual against the tyranny of the state. To the men of our Revolutionary days that government was best which governed least. Liberty meant the absence of state interference with the citizen and his way of life. They

supported this view with the doctrine of "natural rights," the doctrine that the individual had inherent and inalienable rights which the state could not infringe. So long as the individual conformed to the law of nature, the state must not restrict his liberty. Writers on political and social theory approach this problem to-day from a different angle. Common interests unite men into communities which are areas of social life, embracing not only individuals but also associations formed for the purpose of promoting the various interests of the individuals. Justice and order are the most universal of interests, and the association primarily concerned with them is the state, and so the state is co-extensive with the recognized community which in our day is the nation. But the state is not essentially different in its nature from any other association; it has the great interest, justice, to subserve, and it rests upon common will, but all associations serve some interest, and all rest upon the basis of will. However, should one association overstep its bounds, the community acting usually through the state will assert the rights of other associations and ultimately personal rights. Should the state itself overstep its bounds, the community will put it in its place. This may be done by revolution, but the better way is to do it by peaceful constitutional change. The realization that the community is something far wider than the state plays havoc with the latter's claim to absolute sovereignty. No democracy can admit the old doctrine, for in the internal affairs of the community it goes too far.

The doctrine of sovereignty dates from imperial Rome. The emperor concentrated in his person all those powers which the Republic has divided between different magistracies. In the course of a natural evolution the emperor came to possess both the *imperium* and *postestas*. His authority was absolute, and the right to command inherent in his position. With the breakup of the Western Empire the theory and practice of absolute imperial authority disappeared and was nearly lost sight of in the feudal period. It was revived and assumed by the kings as the means of putting feudal lords in their place. The word "sovereignty" meaning royal power was first used by Bodin in the Sixteenth Century and was defined by him as the "absolute and perpetual

power in the state." The first and most essential characteristic of sovereignty is the power "to command all in general and each in particular." In the Seventeenth and Eighteenth Centuries sovereignty meant the right to command. In England it was exercised by the King in Parliament, as the phrase went, and in France by the King in person. Democracy meant in the first place a revolt against the arbitrary power of the sovereign. It was a struggle against absolutism, but the early democrats failed entirely to go to the heart of the matter. They destroyed the absolutism of kings, but left the absolute state untouched. The French Revolutionaries "arrived at conclusions identical with those of monarchical theory," says Duguit. Instead of autocratic monarchs we have been ruled by autocratic states. During the war the democratic state of the present day went farther in the exercise of power than any Bourbon or Tudor ever dreamed of. It compelled millions of men to sacrifice their lives in its service and other millions to do the work which it prescribed. Into the most intimate relations of life it stepped, prescribing what men should eat and what they should wear, even what they should think and what they should say. But among the thoughtful in all democratic countries there was a distinct dissatisfaction with the state's unlimited exercise of power. Down deep in the hearts of men there was a feeling that war and democracy were incompatible, that war was an institution out of place in the modern state. Here in democratic America we solaced ourselves with the thought that once we triumphed over the German autocracy all would be well with the world. But the promise of democratic government will never be fulfilled while the state remains essentially autocratic and absolute. The institution of war will never be abolished without a surrender of part of the sovereignty of the state. So long as the state retains its claim to absolute sovereignty, it will assert its right to independent action, and in the last analysis that means the right to make war.

If the state were co-extensive with the interests of its members, its right to absolute sovereignty could be asserted with some show of rationality. But we have already seen how internally it is limited by regard for the proper functions of other associations.

Externally too, the old doctrine of sovereignty goes too far. In the world to-day common interests run across state boundary lines. Economically the state-bounded national communities live by trade with one another. Culturally their progress depends upon the exchange of ideas. A greater international community is thus growing over state frontiers, and *it is to this greater community that some form of international political organization must be given.* It is the community, which is a social fact, that is demanding political security, and that can be attained only by political organization. It is not an unimportant matter, this thing of world association. It is something that goes to the very foundations of modern civilized life, and we in the United States have as much interest in it as any people because of the network of relations which unite our citizens with those of foreign states. The tradition of political isolation comes down to us from a time when no such international community was in existence and as we were very much isolated economically and socially, it was natural enough that we should remain politically isolated. To-day we are remaining so at the expense of our own welfare, for Europe's economic and cultural decline is of decided disadvantage to us. If the League of Nations can be made into an effective instrument of international co-operation for the prevention of war and also for the handling in an effective way of many matters of positive international concern, such as the control of epidemics; traffic in dangerous drugs, women and children; communications and transit; etc.—if it can help this too sad world to deal adequately with these things, then opposition to it on the ground that it violates the independence and sovereignty of the national state is the most senseless and meaningless opposition conceivable. In a world of international anarchy states may be independent, but they are not certain of their freedom, for the necessary element of order is absent. Political liberty that has value and meaning is always liberty under law, and what is true for individuals is true for states as well. Independence without security means armaments and more armaments and in the end war born of general fear played upon and intensified by ambitious and predatory groups. You may dislike the idea of international government, but without it there

can be no real freedom for any national state. Its resources will be dissipated in preparation for war, and pressing internal problems will have to be neglected. Its concern with external dangers will keep it from being master in its own house. This is the underlying truth of the paradox that sovereignty and independence can be retained by the national state only at the price of freedom. The man who to-day opposes international political association in principle is in the true sense of the word an international anarchist.

PROPOSED SOLUTIONS OF THE PROBLEM OF WAR

I. The Outlawry of War

There are some among us who believe that the way to establish peace is to outlaw war. The way to end the international anarchy which existed in 1914 is to make war a crime, a violation of an accepted international code of law administered by a court of supreme authority. This is the plan embodied in the resolution which Senator Borah introduced in the Senate on February 14, 1923. Mr. Borah's plan has three parts: (1) There is to be a universal treaty making war "a public crime under the law of nations" and "a solemn agreement or treaty to bind every nation to indict and punish its own international war breeders or instigators and war profiteers." (2) There is to be created and adopted "a code of international law of peace based upon equality and justice between nations, amplified and expanded and adapted and brought down to date." (3) There is to be created a judicial substitute for war. An international supreme court is to be established, "modelled on our Federal Supreme Court in its jurisdiction over controversies between our sovereign states, such court to possess affirmative jurisdiction to hear and decide all purely international controversies as defined by the code, or arising under treaties."

To say the least, Senator Borah's resolution embodies a most remarkable proposal. It goes a great deal farther in the way of instituting super-state control than the League Covenant. An international court modelled upon our Supreme Court cannot be created at the present time, and it is doubtful if it ever will be

created. To suppose that nine judges sitting at The Hague could set aside a law of Congress or of Parliament, just as our Supreme Court can annul a law passed by a state legislature, is to refuse to think in terms of reality. Not only that, but our experiment of judicial supremacy is not approved by the political thought of other countries. An Englishman can understand Parliament setting aside a decision of the highest court, but he cannot conceive of any court setting aside an act of Parliament. Outside of America the idea of giving to any court so great a political power as that enjoyed by our Supreme Court when it declares laws unconstitutional and therefore null and void, is not accepted as sound political practice, and probably never will be. The average Briton believes that his idea of keeping his courts out of politics is the better practice.

Senator Borah's plan has been criticised severely because of the inherent difficulties connected with the formulation of a code of law. Apparently the code is to be a starting point for the outlawry of war. Who then is to formulate the code? You immediately think of an international conference to deal with the matter. But, would not such a conference be in fact a great world legislature? Would it not therefore be essentially political, with the delegates appointed and instructed by the cabinets of the day? We may well be sure that the governments of to-day would no more be willing to leave the formulation of international law to a body of experts, lawyers, and jurists than the people of any nation would be willing to leave the enactment of ordinary law to such a body. One can conceive of a large body of international case law growing up in time, as indeed a beginning has already been made in that respect, but one also feels that some international parliament will be needed to revise case law based upon judicial precedent, should such law be at variance with world opinion. In cases where the Supreme Court interprets laws of Congress, the latter body may overrule the court. In cases where laws enacted by Congress are declared null and void because they conflict with the provisions of the national Constitution, the Supreme Court may be overruled by an amendment to the Constitution. That to be sure is a difficult matter, but the essential point is, machinery of a political na-

ture exists for the enactment of any law however fundamental. In Great Britain, Parliament can pass any law it cares to enact, and such law must be enforced by the courts. While Italy possesses a written constitution, its Parliament is as omnipotent as the British. In France the same men amend the constitution who make the ordinary laws. All that is necessary is for the members of the Senate and the Chamber of Deputies to meet at Versailles and constitute themselves a single National Assembly. If both houses are agreed, a fundamental change in the constitution may be made as easily as the enactment of an ordinary law. Nowhere is fundamental law or any other kind of law separated from politics; *nowhere in modern states is law placed beyond popular control*. Mr. Borah has attacked the League of Nations for being political in its nature, "a political autocracy without law or limitations save the unlimited discretion and unbridled will of a few men. . . . If international affairs are to be controlled by the whims and the intrigues and the unlimited discretion of politicians, then my plan is to stay out." It would probably surprise Mr. Borah to learn that his strictures will apply with equal force to the Parliaments of Great Britain, and—France! Yet, notwithstanding, these countries seem to be law abiding, with life, liberty, and property as safe within them as here. In spite of their politicians they are able to maintain well established systems of law. In time we shall have an established code of international law such as those who wish to outlaw war want, but along with it we shall have an international parliament. What is the use of throwing all history and political experience to the winds? Is it not clear that when international government outlaws war, that government will have the organs which experience shows are necessary; an executive, a legislature and a court? Law is not something outside of human experience and beyond the reach of human wisdom. On the contrary, it is the way we poor fumbling mortals try to govern our social relationships in matters of fundamental importance.

Finally, what sanction will an international code of law have, if created according to Mr. Borah's wishes? The answer undoubtedly is the public opinion of the world. But, public opinion

is not enough by itself; it requires to be informed and to find expression through organization. In the Corfu incident the public opinion of the world was clearly against Italy, and fortunately for Europe and the world it found definite expression in the Assembly and the Council of the League of Nations. Mr. Borah puts his faith in a treaty making war "a public crime under the law of nations." But does not experience teach that something more than a treaty is required? It sounds very well to speak of a solemn agreement binding every nation to indict war breeders and instigators; but suppose these latter are in control of the machinery of government, how is the nation to indict them? How could the Italian nation indict Mussolini for his Corfu action? Finally, this plan leaves out of account the actual workings of nationalism. The wave of patriotic emotion which swept over Italy made Mussolini a hero in the sight of the Italians, not a criminal. To talk of indictment is to talk nonsense. It is to set up a lawyer's Utopia in a world of cruel facts. Any plan to avert war has to face these facts. The weakness of the whole plan is seen in the position and importance of the universal treaty outlawing war. It is not the court and the code but the treaty which is fundamental, and such a treaty will prove much more ineffective than the Articles of Confederation which preceded our federal Constitution, for while the former provided for no executive, the proposed treaty goes farther along the lines of weakness, and provides for no Congress as well.

However, we do not wish to be merely critical of the proposal to "outlaw war." We wish Senator Borah, Professor Dewey, and others well in spreading the idea abroad, for this slogan is the best around which to crystallize mankind's abhorrence of war. Not only that, but the essential idea is perfectly sound. What is lacking is the organization required to make the idea effective. It is, of course, the purpose of the League of Nations to outlaw war, just as political federation of states always outlaws war between those uniting, and the Protocol for the Pacific Settlement of International Disputes, adopted by the Fifth Assembly of the League is the greatest step as yet proposed in that direc-

tion. No supporter of the League has any real quarrel with those who would outlaw war, for he wants to do the same thing, but to do it in the only practicable way.

2. *The Permanent Court of International Justice*

Many Americans believe that the best way to promote peace is through the instrumentality of the Permanent Court of International Justice which the League of Nations has established at The Hague. The statute of the Court declares that it is open to all states and only to states. The jurisdiction of the Court falls under three classes: first, all cases submitted to it; second, all cases specially provided for in treaties and conventions; third, with regard to states accepting compulsory jurisdiction, all cases between such states concerning: (a) the interpretation of a treaty; (b) any question of international law; (c) the existence of any fact which, if established, would constitute a breach of an international obligation; (d) the nature or extent of reparation to be made for the breach of an international obligation. (e) The Court has certain special jurisdiction over disputes in labor cases. The Court is made the interpreter of its own judgments should there be any doubt as to meaning. In addition to pronouncing judgments, the Court can give advisory opinions, if requested in writing by the President of the Council of the League of Nations, or by the Secretary-General of the League under instructions from the Assembly or the Council.

The Court shall apply:

1. International conventions, whether general or particular, establishing rules expressly recognized by the contesting states;
2. International custom, as evidence of a general practice adopted as law;
3. The general principles of law recognized by civilized nations;
4. Judicial decisions (subject to the limitation that the decisions of the Court have no binding force except in particular cases) and the teachings of the most highly qualified publicists

of the various nations, as subsidiary means for the determination of rules of law.

The statute adds that these provisions shall not prejudice the power of the Court to decide a case *ex æquo et bono*, if the parties agree thereto.

The Court is thus seen to be fully competent to handle all justiciable questions, but its jurisdiction is not compulsory, except for those states which signed a special clause giving the Court such jurisdiction. The objection has therefore been made that the Court lacks adequate power, for the great nations have not accepted compulsory jurisdiction. However, at the present stage of international development that was to be expected. The Court, like the League of Nations itself, will for a long time have to depend upon the force of public opinion the world over to give it power. In proposing our adhesion to the protocol accepting the Statute, Secretary Hughes was careful to omit the optional clause for compulsory jurisdiction, and also to state that our adhesion involved no legal relationship to the League. There is no sound objection whatever to our acceptance of the Court with these limitations. Our public men have always approved in principle of our participation in such a court, and the only danger of our refusal lies in the unthinking opposition to the League of Nations which the exigencies of political controversy has produced among us. Had the Court not been established by the League, our participation would have been a foregone conclusion.

In the course of time, centering around the Court will grow up a large body of well defined international law, just as the English law with which we are familiar, is for the greater part case-law or "judge-made law." The same thing is true of the French *droit administratif*.¹ The development of such international law is an extremely important matter for the future orderly conduct of international relations. For example, treaties will be much

¹ Cf "The devotees of *droit administratif* in France, in common with the devotees of the common law in England, know that the system which they each admire is the product of judicial legislation." Dicey, *The Law of the Constitution*, p. 369.

more honestly observed when it is recognized that their interpretation is a matter for the Court to decide. In time it will be recognized that it is as much the province of the international Court to decide questions under the treaties, as it now is for the ordinary courts of a country to decide matters that arise under contracts. The Court is a necessary part of the machinery of international government, and those who wish to see the international anarchy of the present day replaced by some form of government, however rudimentary, should support the Court as a step in the right direction.

It is idle to criticise the Permanent Court of International Justice because it does not possess the power of our federal Supreme Court. No nation at the present day, least of all our own, would submit to such jurisdiction. It is to criticise the Court for not going beyond what the opinion of our day is willing to accept. Those who make the criticism, however, feel that only a Court with the powers of our Supreme Court will ever be able to keep peace between the states of the world. Their fundamental contention is that disputes between our states are settled by the Supreme Court, and that fundamentally our peaceful federal system rests upon the powers of the court.¹ Are they right in this contention? We believe that fundamentally they are wrong.

The Supreme Court of the United States does not function by itself, but only as a part of a well defined political system. It is from that system that the Supreme Court derives its authority and its power. Those who are demanding an international court modelled upon our Supreme Court fail to see that they cannot establish such a court without giving it the support of the same sort which our highest court derives from the rest of our political system. So far from wanting a world federation, those who want a world supreme court are for the most part opposed to the League of Nations because it sets up a super-state. They fail to see that their court would be able to function only as part of a world organization of vastly greater power than that possessed by the League. When you have a world federation with states as submissive to international authority as our states are to federal authority, then

it will be time to talk about setting up a world supreme court. Our peaceful federal system does not rest upon the powers of the Supreme Court; the powers of our Supreme Court come from that peaceful federal system. When there existed within our system an issue which divided our states sharply from one another, the Supreme Court was powerless to settle the matter!

What we Americans need to learn is that *mankind will never allow a court to settle great political issues*. We can learn that lesson from our own history, from the way our own people handled the slavery question. When in 1820 the issue became acute, a compromise was reached in Congress, and serious trouble postponed for thirty years, when another compromise was reached. Short of an absolute split no other settlement was possible. As politics, both measures were wise. Had war come in 1820 the Union in all probability could not have been saved, had it come in 1850 it might not have been saved. Had another compromise been reached in 1860, the war in all probability would never have come about. In another decade the power of the northern states would have been too great for the South to challenge. In the course of time slavery would have been abolished by political means, and the South would have been saved the social turmoil of the Reconstruction period. This thesis which Professor Channing has developed seems to us perfectly sound. Where was our Supreme Court while the slavery issue was making for war between the states? In 1857 it took the centre of the political stage and "decided" the matter in the famous Dred Scott decision. It "decided" among other things that the fundamental principle of the Republican Party, the exclusion of slavery from the federal territories, was unconstitutional. If Congress or a territorial legislature should attempt to exclude slavery from a territory, such legislation would be null and void. Slaves were property and as such were given constitutional guarantees which could not be violated. A slaveholder could take his property into any national territory, and it would be given legal protection. The Supreme Court thus undermined the whole *raison d'être* of the newly formed party. But the Republican leaders did not acquiesce in the decision. They attacked the Court and treated Chief Justice Taney

as an ordinary politician. The newspaper comment is significant. The following appeared in the leading Republican paper: "The Supreme Court of the United States has abdicated its just functions and descended into the political arena. It has sullied its ermine; it has dragged and polluted its garments in the filth of pro-slavery politics." The opinion of the chief justice deserves "no more respect than any pro-slavery stump-speech made during the late presidential canvass."² The Republican leaders all declared that they would not be bound by the decision in the formulation of their policy. Lincoln on one occasion bluntly declared that if they carried Congress and the Presidency, they would increase the number of the judges and outvote the seven who concurred in the decision, thus setting it aside. In the platform of 1860 the Republicans ignored completely the judgment of the Court and declared for the exclusion of slavery from the territories, which meant that they would ultimately come in as free states, placing the South in a decided minority. It is agreed among students of American history that so far from preventing war, the Court's decision hastened the coming of the conflict by making the difference between the sections more pronounced, while it gave the Southern states the feeling that their legitimate constitutional rights were about to be denied by the aggressive North. We have referred to this famous decision simply to make the point that a great political issue cannot be settled by judicial means. Other minor instances from our history might be mentioned. Andrew Jackson assailed the Supreme Court for holding the Act chartering the United States Bank constitutional. The Court's decision did not modify Jackson's "war on the Bank." In the campaign of 1896 Mr. Bryan attacked the Court for pronouncing the Income Tax unconstitutional. Mr. Roosevelt was severely annoyed at the Court's interference with state laws regulating working conditions. Very recently the late Senator La Follette paid his respects to the Court for declaring the Child Labor Law unconstitutional. Periodically the court comes in for a severe criticism, and this will continue, so long as the Court exercises the

² New York Tribune quoted by Rhodes, *History of the United States*, Volume II, p. 262.

political function of declaring laws null and void, thus thwarting majority action, as in the case of the income tax. When the Court comes in for criticism, some sage lawyer admonishes us that we are undermining the foundations of society when we attack the courts, and lawyer-like quotes the English maxim about keeping the courts out of politics. If we had the English system, that maxim would be perfectly sound, for the English courts enforce the laws of Parliament without questioning their validity, and Parliament can overrule the highest court if it sees fit. If the law does not suit you, if you have a grievance against the court, go to Parliament for redress. Political agitation is therefore directed towards Parliament. When Viscount Cecil was here, we Americans thought it strange that he did not get excited over President Harding's proposal that we accept the Permanent Court. There were probably two reasons for this. In the first place his intimate knowledge of world politics is such that he feels that no court can settle the complicated issues from which war arises. Granted the Court's competency to settle justiciable questions, you have still to face the fact that wars do not grow out of such questions. In the second place, a court is not the body to deal with essentially political matters,³ and unless you can settle by political means such issues, there is no other appeal except to force. The problem before us is to get the states of the world to pass from force to conference.

By all means, let us have a world court. We want the United States to give the Permanent Court of International Justice hearty support and to throw the whole weight of its influence behind the

³ We in America are familiar with the idea that constitutional questions are "decided" by the Supreme Court. The fact that our Constitution is so difficult to amend gives to the Court's decision a weight and authority which it would not otherwise have, for after all the Court can be overruled by amending the Constitution, that is, by political action. In this connection it is interesting to note that in spite of his respect for the Court, Senator Borah was one of those who worked most earnestly and intelligently for the Sixteenth Amendment. Obviously the question of income taxation is a political one, and only temporarily seemed to be a judicial one. The same is true of Federal Child Labor legislation, which is before the country at the present time.

Court in the contribution it makes towards outlawing war. We approve of the Court just as much as we approve the doctrine of those evangelists among us who preach the outlawry of war. The Court can settle many minor matters between nations and by so doing make an indispensable contribution to world organization. By settling minor questions seriatim, it will prevent a great deal of irritation from accumulating, and thus create an atmosphere favorable to a peaceful consideration of questions of international policy which must be dealt with in conference. The Court is a good thing so far as it goes, but it does not go far enough, if we mean to end war. We need political machinery for international government, just as we need it for national government. Courts are excellent things for settling disputes between individuals; but if we mean to prevent revolution, we have to set up within our national states Congresses and Parliaments where justice in the wider moral sense may find expression and change laws to meet changing conditions. Our modern parliamentary bodies may offend a lawyer's sense of order and decorum, but for handling questions of policy there is no substitute for them. Finally, within our own Union it is simply not true that the Supreme Court more than anything else has bound our states together. Discussion and agreement leading to legislation in Congress has had much more influence in building up our federal system which is America's greatest contribution to practical politics. In addition there is a deeper underlying cause, free trade between all of our states, and it was a political convention, a conference of delegates from the states which formulated our federal Constitution with this wise provision. Does anyone who longs for a peaceful world suppose that world-wide free trade will ever be established except by political means?

The need of a political organization to deal with the root causes of the war is clear from our exposition in Chapter VIII. The great imperialistic and nationalistic questions will never be settled peacefully except by conferences of a political nature. The questions of "high policy," as the Europeans speak of them, are not matters for a court to decide. They are at the present time the most difficult questions of diplomacy, and in our day we shall

do well to bring them out into the open, to make them the subjects of regular conferences, to have the diplomatic cards laid upon the table. That in itself will make a great advance over the diplomacy leading to the war. Such conferences should be regular and should take up troublesome matters when they first appear. Spasmodic *ad-hoc* conferences are quite inadequate, and cannot safely be depended upon after a question has become acute.

3. *The League of Nations*

Those who believe that issues likely to lead to war must be handled by political means put their faith in the League of Nations and its Assembly and Council. As for justiciable questions, the Permanent Court of International Justice, which the League has established, is competent to deal with them. Wholehearted supporters of the League believe in the Assembly and Council as much as they believe in the Court. Each in its special sphere is indispensable, and the division of labor between political and judicial agencies will enable both of them to function effectively. As yet, the League has but the shadowiest form of an international government. It is not a super-state compelling its members to submit to its enactments. Its Council partakes of the nature of a cabinet, while the Assembly resembles an international congress. The Secretariat is developing into an international civil service. Here, then, is an organization which is a new adventure in history, one that gives promise of better things to come, if the friends of peace will only take it and mould it to their purpose.

So much has been written and said about the League that it would be superfluous for us to go into detail regarding its organization and progress. Every year the League is growing in importance, and the amount of useful work which it is accomplishing is constantly increasing. The League has brought together in a form of orderly relationship more than half a hundred sovereign states. That, to say the least, is a remarkable achievement at this day when national sentiment runs high. The League has not yet fulfilled the high hopes of those idealists who during the war wished to set up an organization which would outlaw war

and make it impossible between civilized nations. That was too great an ideal for sudden achievement. On the other hand, the League has not disappointed the hopes of reasonable men and women who wished to set up an organization that would in time develop some form of world federation which would deal effectively with the causes of war. "Constitutions are not made, they grow," remarked an eminent Victorian, a truth we should do well to remember while considering the League. It will take the passing of time and the demonstration of indisputable advantages to make the League a completely successful organization of peace by mutual concessions in return for mutual benefits.

Our controversy over the League of Nations has made us think of it as merely an agency to prevent war. That, to be sure, is its chief purpose, but we should not overlook the very important positive work of international administration which is put under its direction. During the half century before the war a most important though little noticed change took place in the conduct of certain international relations. The Nineteenth Century with its great inventions increased immensely international contacts, and new agencies had to be established to deal adequately with new problems. The International Telegraph Office of the International Telegraph Union dates from 1868. The International Post Office of the International Postal Union was established in Berne in 1874. The Metric Union established its International Office of Weights and Measures in Paris in 1875. The International Union for the Publication of Customs Tariffs opened its office in Brussels in 1890. The Central Office of International Transports at Berne dates from 1890 also. The International Institute of Agriculture was set up at Rome in 1905, and the International Health Office was established in Paris in 1907. It has been well said that these Public Unions and administrative agencies are the true background of the League. They showed that there was an international way of dealing with matters of general concern which was more efficient than any merely national treatment.

It is true that these Public Unions deal with matters which are non-contentious, matters which do not lead to war but, the

important thing is that they reveal the national advantages which come from the restriction of national independence in the interest of international administration. Not only that, but they develop an international way of looking at things. They teach nations to co-operate and help to develop the international mind. Very properly then Article XXIV of the Covenant stipulates, "There shall be placed under the direction of the League all international bureaus already established by general treaties, if the parties to such treaties consent. All such international bureaus and all commissions for the regulation of matters of international interest hereafter constituted shall be placed under the direction of the League." It may well be that, as a brilliant student of international affairs has recently remarked, "Future historians, looking back over the process of world-integration, are likely to fix on Article XXIV of the Covenant of the League of Nations as the most epoch-making section of that much-discussed document." ⁴

Popular discussion in this country has centred so much around traditional catchwords like "avoiding entangling alliances" that a great deal of the excellent work of international concern which the League is doing has escaped attention, though it deserves serious consideration. The Council of the League has appointed committees to study and report on the following matters: health and epidemics; communications and transit; the traffic in women and children; opium; mandates; intellectual co-operation. It has also appointed a permanent advisory commission to consider military, naval, and air questions, and a temporary mixed commission on the reduction of armaments. Under the League, in accordance with the Treaty of Versailles, there has been organized an international labor office to deal with industrial relations and labor matters generally. Our government has declared its intention of co-operating with the League in humanitarian matters. Many of our citizens have served the League and are serving it on committees and commissions. There is no reasonable opposition to the League in its endeavors to serve mankind in these ways.

⁴ Mr. Alfred E. Zimmern in the *Atlantic Monthly*, September, 1923, p. 414.

And the more the League brings the nations of the earth together in the handling of such matters, the more it will educate them in the ways of international co-operation. The League is the first organization to unify and co-ordinate international action in dealing with these matters of general welfare, a work of inestimable value for the future good of mankind, and on most of the commissions our government is represented in an "unofficial and consulting capacity."

International subjects may be classified under three heads. First. Noncontentious administrative matters, such as, uniform postal regulations, which the Postal Union has proved so efficient in handling. Second. Contentious questions which nations desire to settle peacefully, such as, the interpretation of a treaty. These are justiciable questions which the world court can and should deal with. Third. Contentious matters which are questions of national policy. It is in this class that the causes of war belong. The League of Nations is so constituted that these questions must be dealt with in Conference. To date the Corfu Crisis is by far the most difficult and dangerous test that the League has faced.

The net result of the Italian-Greek crisis was the strengthening of the position of the League and the increase of its prestige. People generally are not concerned with the intricacies of the settlement. What they do know is that a crisis threatening the peace of Europe arose, and the League facilitated a peaceful settlement, through its recommendation to the Conference of Ambassadors.⁵ Public opinion the world over, while shocked at the murders, was definitely aligned against the Italians in their hasty action, and that opinion found articulate expression at Geneva. Considering the nature of the Italian government, the League was put to an unusually severe test, because of the character of the Italian Premier and the method by which he came into power. Signor Mussolini presented to Greece an ultimatum as violent in form and language as the famous Austrian ultimatum to

⁵ The settlement was actually worked out by the Council, but good tact suggested that it be presented to Mussolini by the Conference of Ambassadors. Acceptance was thus made easy.

Serbia, and in presenting it declared that the matter concerned the honor of Italy and that no interference would be tolerated. Before the Council met, Corfu was bombarded. No more difficult situation could be imagined. It arose, too, at a most unfortunate time. Great Britain and France were at variance over Reparations and the Ruhr invasion, and both looked to Italy for support. But, fortunately for the League and the world, Lord Robert Cecil (now Viscount Cecil) opposed Italian pretensions with firmness and decision, acting under instructions from his government to support actively the intervention of the League. M. Hymans, speaking for Belgium, declared that the competence of the League was incontestable. All of the small states took this position. The Little Entente made it clear to M. Hanotaux that the League was counted upon by the small states to act in just such circumstances, and whatever the French representative may have felt about courting Italian support, he did not dare to break with France's smaller friends. The position taken by the Council in the crisis put vitality into Articles XI, XII and XV of the Covenant. The competence of the League of Nations was asserted and acknowledged *de facto*. An extremely valuable precedent was established for the handling of acute disputes even when a great power is involved. The outstanding results were these: war was prevented, Corfu restored to Greece, and adequate reparation made to Italy for the murder of the Italian officers. Behind these results is the significant fact that a check was put upon Italian purpose by League action, and wrapped up in that purpose was the whole question of Italian policy in the Adriatic and the Mediterranean. It is this consideration which raised the prestige of the League. If no question of policy had been involved, settlement would have been easier and of less significance.

We found that the policy of economic imperialism pursued by the great powers was a most serious cause of war. How will the League be able to deal with it? In the first place it can begin a campaign of education. It can publish the trade statistics showing how little the European countries have profited by imperial ventures, and thus dispel the widespread illusion that African and Asiatic "possessions" are of great value to the European

countries. Once the illusion is cleared away, it may be possible to deal with the imperial problem impartially. When you speak of the oil of Mesopotamia, you naturally think of Britain and France getting something for nothing. That is not the case. The taxpayer at home bears the cost of the army which occupies the territory; such cost, being a charge on the British or French revenue, is passed by in silence. The oil syndicate relieved of this necessary first cost will make a big profit, and the thing looks fine. Conquest does not pay, if you look at the matter from the national standpoint; it pays only from the standpoint of the concessionaire. The League should emphasize the national standpoint and give it publicity. Capitalistic imperialism has had too easy a time with its schemes, owing to widespread general economic ignorance. The whole policy would be far less dangerous if the hitherto submissive taxpayer could be awakened up.

The trade statistics which we quoted in Chapter V above made it abundantly clear that the ideas of imperialists regarding the importance of African colonial possessions as sources of wealth are delusions. However, men have fought for delusions before and are likely to fight for them again. So long as imperialism is profitable to the exploiters and the concessionaires, and so long as people generally think that the policy is of national advantage, the interests of the former will lead to conflict unless they are checked by international action. It was, therefore, a good thing that the German colonies were not annexed outright by the Allies, but given over to their administration under mandates. Article XXII of the Covenant declares that the development of backward peoples is a sacred trust of civilization, and that the tutelage of these peoples should be intrusted to advanced nations who are willing to accept it, and that this tutelage should be exercised by them as Mandatories on behalf of the League. With regard to African territories and the islands of the South Pacific the Mandatory is required to grant "equal opportunities for the trade and commerce of the other members of the League." A permanent commission has been established by the League to examine the annual reports of the Mandatories, and to advise the

Council on all matters relating to the observance of the mandates. Whether mandates turn out to be disguised annexations or a new departure in colonial administration, will depend upon the future of the League. If in these territories the League can secure the observance of the principle of "equal opportunity for trade and commerce," it will establish a useful precedent, which may in time be applied to other colonies. The more widely the principle of equality is applied to trade relations, the better it will be for the peace of the world. This, we saw, is true whether the trade is with colonies or between nations. If the nations of the earth will not for some time adopt universal free trade, they can at least grant equality of treatment. There should be no tariff wars between the members of the League, and by Article XXIII they are pledged "to secure and maintain freedom of communications and of transit and equitable treatment for the commerce of all members of the League." Those who wish the League well should insist upon the strict observance of this clause.

Before the war, in India, in the British Crown Colonies, in the German and Dutch possessions, tariffs were imposed for revenue only. Nothing reconciled the world so much to the growth of the British Empire as this absence of preferential and protective tariffs in the territories subject to the control of the Imperial Parliament. This is quite contrary to French practice, however, and France will not adopt colonial free trade. She will insist upon preferential treatment for her home products, except in the Congo, Morocco, and Tunis where she is under agreement to give no special favors to her own citizens. Outside these territories and the mandated areas the League is powerless to control French policy. This would be serious but for the fact that after all trade with colonies is not important to the other nations. The tariff walls which the French build around their possessions are of little significance to the European countries compared with our own tariff wall. While the League is impotent to control national policy with regard to tariffs, it must insist on equal treatment of other nations by each and all of its members. If French goods enter Algeria free, no one is likely to raise objections. If, however, a higher

duty were to be levied upon British goods than that upon Italian or American, tariff wars would soon begin. It is such practices that are wisely prohibited by the Covenant.

Much has been written about access to necessary raw materials and about nations going to war to secure them. The monopoly of raw materials is not easily achieved. We thought we had a monopoly of cotton, but cotton is being grown to-day in Egypt and India, and there are many other places where it can be raised. Chile thought she had a monopoly of nitrates, but chemists to-day extract them from the air. We need rubber latex and are dependent upon the Malay States which the British control. If British monopoly becomes unbearable, our rubber manufacturers will develop Brazilian plantations. As a matter of fact, one of our largest companies owns and operates plantations in Sumatra, which the Dutch control. Because of the importance of motors, oil and gasoline seem necessary to-day; perhaps to-morrow some chemist will give a more economical substitute to the world, and so on. The time may come when the raw materials of the world will have to be rationed to the different nations, but when the time does come, the present capitalistic system with the present measure of free competition will be obsolete, and a radical change will have taken place in the economic structure of society. As a result of the war that situation has developed and such a change has taken place in certain parts of Europe, but the old order, though modified, is likely to return with the improvement of conditions. If, however, economic imperialism with its mercantilistic-militaristic theory of trade is the logical outcome of capitalism, then the latter is doomed. Men will suffer for many things, but not for a system which shakes civilization to its foundations. Those who believe in the present order must guard against its excesses. They should support the League in its endeavor to secure equality of commercial opportunity the world over. They should be alive to the necessity of giving the League larger powers to deal with changing economic needs. Peace can never be a static thing, not in this world of change and growth. There is no future for a League of satisfied powers bent on keeping things as they are. That is why in the larger matters of policy only a political organi-

zation such as the League gives promise of becoming will ever be able to deal adequately with the need of change.

The national states of Europe must find a way of living together in peace if European civilization is to survive. But peace can never be merely a matter of maintaining the *status quo*. Sooner or later such a political monstrosity as the old Hapsburg Empire would have been dissolved, or transformed in such a way as to allow each national group full scope for the development of its own life. A peaceful solution required a federal system. For the future, the League's capacity to serve the cause of peace in Europe will depend upon its ability to co-ordinate and harmonize the interests of all the European states. The League is the only agency which holds out the slightest hope for even a beginning of federation. Without the League, Europe will relapse into the condition of international anarchy which existed before the war. That is why the "good European," the man of large vision, puts his faith in the League. The war settlements have greatly increased the number of small nationalistic states in Europe, which without the League would add to the old world's difficulties. But the hopeful thing is that these small states look to Geneva for protection, as the Italian-Greek crisis made clear. In time they will find that mutual protection involves mutual sacrifices in the interest of the larger good. Among the smaller states the League has proved to be an effective agency for peace. It settled the Aaland Island's dispute between Finland and Sweden. It determined the Polish-Lithuanian boundary at a time when tension was growing serious. It decided the status of Upper Silesia, providing a workable settlement between Germany and Poland. There are still national minorities in Europe, and there always will be, but just and equitable treatment will prove the road away from war. Those sections of the war settlements which granted protection to national minorities and the special treaties having this purpose have all been placed under the guaranty of the League. These treaties protect national minorities in the use of their language, the exercise of their religion and customs, and provide generally for equal treatment in law. In the handling of the troublesome problems of nationality, this protection of minorities

represents a very great forward step. The League's ability to prevent war arising out of national causes will to a large extent depend upon its guaranty of fair and equitable treatment of national minorities. The interpretation of such treaties at times will be difficult. National authority may encroach upon local rights, or localities may defy legitimate national authority. Here then, is an excellent field for the Permanent Court of International Justice. No state is likely to defy the Council in upholding the decision of the Court, unless it wishes to gain the reputation of being a treaty breaker, and put itself in the wrong in the sight of the other members of the League. In the meantime, if the League is able to give its members a sense of security, it will create among all states the desire to co-operate with it in the pursuit of peace through justice.

The third cause of war which we investigated was preparedness and insecurity. The League's ability to reduce armaments will depend upon its success in organizing security for all nations great and small. Armaments are a symptom which will disappear when the cause, insecurity, is removed. We in America have no great conscript army for the simple reason that our people feel secure, and as long as we feel that way, those who advocate universal military service are wasting time and energy. On the other hand, the European states, great and small, are spending money far beyond their means for armaments, because their people feel that they cannot yet put their trust in anything else. The Italian-Greek Crisis brought clearly to light the small states' determination to make of the League the organization for their protection. Naturally, the European states will retain their armies while the League is growing and will reduce them only as the League gives them security.

What appears to be the most promising field for the League in its endeavor to organize the world for peace is secret diplomacy. Article XVIII reads: "Every treaty or international engagement entered into hereafter by any Member of the League shall be forthwith registered with the Secretariat and shall as soon as possible be published by it. No such treaty or international en-

gagement shall be binding until so registered." The fact that practically all the nations have agreed to do this is very promising. It certainly represents a very great step forward in the conduct of international relations. If the League is able to secure the registration of all treaties, some of the worst features of the old system of alliances and secret obligations will be removed.

It is, however, in the field of conference that the League is proving of most value. Sir Edward Grey (now Viscount Grey of Falloden) has asserted many times that the Crisis of 1914 would have passed peacefully had there been a conference of the powers. On one occasion he went so far as to declare that the conference which he proposed would have settled the matter in a week. He undoubtedly meant that after a week's discussion some plan of settlement would have been reached. In this respect Europe is a great deal better off than in 1914 through the organization of the League. The Italian-Greek Crisis demonstrated the difference. The attitude of the Italian ministers was just as unbending as the attitude of the Austrian ministers in 1914, but through the Council of the League Europe was able to assert herself and make the matter a thing of general concern.

The League has the power to call a conference to deal with any matter likely to lead to war, and the members are under obligation not to resort to war without first submitting the matter to arbitration or to inquiry by the Council. In this respect the League means a great advance in diplomacy. With open discussion in an open conference it will not be possible to keep the world in the dark as to what is taking place, such as occurred in the fateful month of July, 1914. Would the people of Great Britain and France have supported Russia had they really understood the aggressive nature of Russian policy? Would the Austrian government have been able to thwart the efforts of the Kaiser and the Chancellor had the matter been brought into open conference? Lastly, could the militarists of the three despotic empires have taken things so completely into their own hands without secrecy and the fear and apprehension born of secrecy? The strongest argument that can be made for the League of Nations and its

provisions for conference and conciliation is just the plain, truthful account of the outbreak of the War which we gave at the end of Chapter VIII.

THE PROTOCOL FOR THE PACIFIC SETTLEMENT OF INTERNATIONAL DISPUTES

What M. Briand described as the "most formidable obstacle to war ever devised by the human mind," is the Protocol for the Pacific Settlement of International Disputes, which was presented to the Assembly of the League of Nations on October 2, 1924, and there approved by the representatives of forty-seven member states. The Protocol was intended to outlaw war once and for all, and to give to the nations of the earth that sense of security without which there can be no disarmament. It followed the lines so concisely put by the then Premier Herriot in the three words, "Arbitration, security, disarmament."

The Protocol recognized the solidarity of the members of the international community, and declared that a war of aggression constituted a violation of this solidarity and an international crime.⁶ It proposed to set up machinery for compulsory arbitration, if disputes arise which are likely to lead to war; and even when hostilities have begun, to give the Council of the League the right to enjoin an armistice and compel arbitration. The aggressive state becomes an outlaw, and the Council is to see that the sanctions, economic or military, shall be applied against it. Hence it is of the utmost importance that the aggressor shall be determined beyond doubt. This was provided for by Article 10 of the Protocol, which declares a state to be an aggressor:

If it refuses to submit the dispute to the procedure of pacific settlement provided for in the Covenant or the Protocol.

If it refuses to comply with a judicial sentence or arbitral award or with a unanimous recommendation of the Council.

⁶ The full text of the Protocol is given in *Current History*, November, 1924. It is also given in *International Conciliation*, December, 1924. No. 205. This number also contains the reports of the committees, given by M. Politis and Dr. Benes.

If it attacks a state over an issue which by international law has been decided by the Court, Council, or Arbitral body, to be a matter solely within the domestic jurisdiction of the latter state. In such a case the question may be submitted to the Council or Assembly, in accordance with Article II of the Covenant. The state that resorts to war without previously doing this is the aggressor.

If after a dispute arises, it increases its armaments and the number of its effectives. The size of armaments and the number of effectives is to be limited by the Disarmament Conference.

In a case where the Council cannot at once determine the aggressor, it shall be bound to enjoin upon the belligerents an armistice, and shall fix the terms, acting, if need be, by a two-thirds majority and shall supervise its execution.

The settlement of a dispute may be effected by the Council or the Assembly, in accordance with Article 15 of the Covenant, or by a special arbitral body constituted for the purpose. If the question is a justiciable one it will naturally come before the Permanent Court of International Justice, and the signatory states undertake to recognize as compulsory the jurisdiction of the Court in the cases covered by Paragraph 2 of Article 36 of the statute of the Court.⁷

Article II of the Protocol requires that the sanctions of Article 16 of the Covenant shall be effectively used against the aggressive state. This means the severance of all trade or financial relations, the prohibition of all intercourse between nationals of other states and the nationals of the aggressive state. This applies to all states whether members of the League or not. Finally, in addition to the economic sanctions, which alone would produce hardships almost unbearable, the signatory states may be called upon by the Council to furnish military or naval forces to be used against the aggressor. Every signatory state is pledged to "co-operate loyally and effectively in support of the Covenant of the League of Nations, and in resistance to any act of aggression,

⁷ See p. 288 above.

in the degree which its geographical position and its particular situation as regards armaments allow."

We have given in barest outline the main provisions of the Protocol, but we have given enough to justify what Premier Benes said in concluding his report to the Assembly:

"Our purpose was to make war impossible, to kill it, to annihilate it. To do this, we had to create a system for the pacific settlement of *all disputes* which might ever arise. In other words, it meant the creation of a system of arbitration from which no international dispute, whether juridical or political, could escape. The plan drawn up leaves no loophole; it prohibits wars of every description and lays down that all disputes shall be settled by pacific means."

The Protocol was intended to prepare the way for an "International Conference for the Reduction of Armaments" to be convened by the Council at Geneva on Monday, June 15, 1925. Owing principally to the opposition of Great Britain the Conference was not held. That the Protocol should have been referred to the different governments for their ratification was due to the co-incidence of a radical government in France and a labor government in Great Britain. Naturally the attitude of Mr. (now Sir) Austen Chamberlain who succeeded Mr. MacDonald as Foreign Secretary was quite different. Addressing the League Council at Geneva on March 12, 1925, Mr. Chamberlain said:

"His Majesty's Government conclude that the best way of dealing with the situation is, with the co-operation of the League, to supplement the Covenant by making special arrangements in order to meet special needs. That these arrangements should be purely defensive in character, that they should be framed in the spirit of the Covenant, working in close harmony with the League and under its guidance, is manifest. And in the opinion of his Majesty's Government these objects can best be attained by knitting together the nations most immediately concerned, and whose differences might lead to a renewal of strife, by means of treaties framed with the sole object of maintaining, as between themselves, an unbroken peace."

Sir Austen Chamberlain's declaration meant that it would be useless to hold a great disarmament conference at Geneva in June. Without British adherence to the Protocol the general sense of security would be weakened. The acceptance of the Protocol preceded logically the disarmament conference, for security is the *sine qua non* of armament reduction. But the British Foreign Secretary made it abundantly clear that his own attitude and that of the government of which he was a member was not merely negative, that they preferred to proceed by limited pacts, instead of the universal Protocol, for pacific settlement of dangerous disputes which might arise. Obviously he had in mind, first and foremost, the situation between France and Germany, and his declaration foreshadowed the conference at Locarno, where the very promising security pact was recently agreed upon.

THE LOCARNO AGREEMENTS

The agreements initialed at Locarno on October 16, 1925, and signed in London on December 1, 1925, are seven in number. First and foremost is the Treaty of Mutual Guarantee between Belgium, France, Germany, Great Britain and Italy, the commonly called security pact. Then follow arbitration treaties between Germany and Belgium, Germany and France, Germany and Poland, and Germany and Czechoslovakia. Finally two treaties of security were concluded by France with Poland and Czechoslovakia respectively.

The security pact guarantees the maintenance of the frontiers, fixed by the Treaty of Versailles, between France and Belgium on the one side and Germany on the other. The obligations of Germany with regard to the demilitarized zone along the Rhine are re-affirmed. "Germany and Belgium, and also Germany and France, mutually undertake that they will in no case attack or invade each other or resort to war against each other." Three exceptions are taken to this stipulation. (1) The right of legitimate defense may be exercised. (2) Action in pursuance of Article 16 of the League of Nations Covenant is allowed. (3) So too action taken as a result of a decision of the Assembly or

Council of the League, or in pursuance of Article 15 of the Covenant. Considering the fact that a "legitimate defense" cannot be made unless one of the parties first make an illegitimate attack, and that the operations of the League are designed to promote peace, it may be said that war between the contracting parties is "outlawed," so far as that can be done by mutual agreement. In view of the above undertakings, "Germany and Belgium and Germany and France undertake to settle by peaceful means and in the manner laid down herein all questions of every kind which may arise between them, and which it may not be possible to settle by the normal methods of diplomacy."

"Any question with regard to which the parties are in conflict as to their respective rights shall be submitted to judicial decision, and the parties undertake to comply with that decision. All other questions shall be submitted to a conciliation commission. If the proposals of this commission are not accepted by the two parties, the question shall be brought before the Council of the League of Nations, which will deal with it in accordance with Article 15 of the Covenant of the League."

In case an unprovoked attack or a breach of Article 42 or 43 (providing for the demilitarized zone) of the Versailles Treaty has been or is being committed, the matter shall be brought at once before the Council of the League of Nations. "As soon as the Council of the League of Nations is satisfied that such violation or breach has been committed, it will notify its findings without delay to the Powers signatory of the present Treaty, who severally agree that in such case they will each of them come immediately to the assistance of the Power against whom the act complained of is directed. . . . The High Contracting Parties undertake to act in accordance with the recommendations of the Council, provided that they are concurred in by all the members other than the representatives of the Parties which have engaged in hostilities."

The present Treaty shall be registered at the League of Nations in accordance with the Covenant. It shall impose no obligation upon the British Dominions or upon India unless accepted by the government of a Dominion or of India. The present Treaty shall

enter into force as soon as all the ratifications have been deposited at the League, and Germany has become a member of the League of Nations.⁸ The Treaty which is designed to insure the maintenance of peace and is in conformity with the Covenant, shall not be interpreted as restricting the duty of the League to take whatever action may be deemed wise and effectual to safeguard the peace of the world.

The above are the chief terms of this already famous security pact. In addition the Allied powers join in a note interpreting Article 16 of the Covenant, so as to meet the criticism of the Germans: "Each state member of the League is bound to cooperate loyally and effectively in support of the Covenant and in resistance to any act of aggression to an extent which is compatible with its military situation and takes its geographical position into account."

The arbitration treaties, of which the German-Czechoslovak Treaty may be taken as the model, contain these provisions:

"All disputes of every kind between Germany and Czechoslovakia with regard to which the parties are in conflict as to their respective rights, and which it may not be possible to settle amicably by the normal methods of diplomacy, shall be submitted for decision either to an arbitral tribunal or to the Permanent Court of International Justice. . . . It is agreed that the disputes referred to above include in particular those mentioned in Article 13 of the Covenant of the League of Nations."

"The dispute may, by agreement between the parties, be submitted with a view to amicable settlement, to a permanent international commission styled the Permanent Conciliation Commission, constituted in accordance with the present treaty." Each party is to appoint one of its nationals as a commissioner, and these two by common agreement are to select three others of different nationality, and the High Contracting Parties are to select the president of the commission from among them. A dispute

⁸ Germany was not admitted at the special meeting held in Geneva in March, 1926. The whole question of permanent seats on the Council was raised, and her admittance was finally blocked by Brazil. Germany will probably be admitted at the September meeting.

will be referred to the commission by means of a request addressed to the president by one or both of the contracting parties. The commission will meet at a place chosen by the president unless the place of meeting is otherwise agreed upon by the parties. If the matter in dispute is one within the domestic law of one party, it shall not be submitted by the procedure laid down in this treaty until it has been decided by the competent national judicial authority. If no amicable agreement has been reached by the Conciliation Commission, the dispute shall be submitted to the Permanent Court of International Justice, or to The Hague Tribunal as established by the Convention of 1907. If the question is one between the German and Czechoslovak governments, and they have not reached an agreement within a month from the termination of the labors of the Conciliation Commission the question shall at the request of either party be brought before the Council of the League of Nations, which shall deal with it according to Article 15 of the Covenant.

The other arbitration treaties are, with slight differences, similar to that between Germany and Czechoslovakia.

The treaties between France and Poland, and France and Czechoslovakia are security pacts. The treaties are identical, except for the difference of the names of the countries. The principal article of the former reads: "In the event of Poland or France suffering from a failure to observe the understandings arrived at this day between them and Germany with a view to the maintenance of general peace, France and reciprocally Poland, acting in application of Article 16 of the Covenant of the League of Nations, undertake to lend each other immediate aid and assistance, if such a failure is accompanied by an unprovoked recourse to arms." But nothing in the present treaty "shall be interpreted as restricting the duty of the League to take whatever action may be deemed wise and effectual to safeguard the peace of the world."⁹

From Versailles to Locarno is a long step forward in the political progress of Europe. Locarno signalizes the end of the régime

⁹ The texts of the treaties are given in *Current History*, December, 1925, pp. 323-327.

of force instituted by the Versailles Treaty. It shows a new spirit at work in European politics. Peace between the great powers of Europe will greatly strengthen the League of Nations, and the Locarno agreements prepare the way for the development of a united Europe, and a united Europe, which depends upon the co-operation of the great powers, will give authority to the decisions of the League. The test of this was seen in the League's handling of the Greek-Bulgarian frontier incident. The Council acted speedily and effectively because it voiced the opinion and demands of an united Europe. It stopped hostilities with remarkable dispatch, and the commission which it appointed reached a prompt decision establishing the entire responsibility of Greece, and rewarded an indemnity of \$219,000 to Bulgaria. By this action it looks as though the Balkan danger to the peace of Europe had been effectively removed; it is one of the outstanding achievements of the League.

If all the danger spots can be covered by agreements similar to the Locarno pact, then the prospect for peace will be bright indeed. As soon as practicable a similar set of treaties should be concluded between Russia and her neighbors. The Russian problem is if anything more difficult. Russia is profoundly dissatisfied with some of the boundary lines, and will no doubt insist upon changes before agreeing to a permanent settlement. Furthermore, it is only a question of time before Russia will be in a position to enforce her demands, and then Europe may face a serious crisis. We are thinking of such problems as that raised by the Roumanian occupation of Bessarabia.

AMERICAN ATTITUDE TOWARDS THE LEAGUE OF NATIONS

American opposition to the League of Nations has been due to four things: (1) The strength of the most stubborn tradition in foreign policy which a great nation has ever maintained; (2) the force of American nationalism, and the dislike of a super-state; (3) the danger of entanglement through the Treaty of Versailles; (4) the failure of the Covenant to outlaw war.

The overwhelming majority of our people are simply opposed

to involvement in European politics, and they fall back upon the ideas of Washington's Farewell Address. They do not as yet understand how completely changed is the position of the United States to-day from that obtaining at the end of the Eighteenth Century. Our peace and prosperity are now bound up inextricably with the peace and prosperity of Europe. They have not considered the disrupting influence of another great European war; they have not given sufficient weight to what ought to be obvious to anyone, that without stable conditions in Europe there will be depression in agriculture and other exporting industries with consequent slowing up of business generally in this country. Lastly, the days of remoteness from Europe are gone forever. Washington knew nothing of the railway, the steamboat, the telegraph and the radio.

To-day nationalism is a more powerful influence in the United States than it is in any country in the world. Our area is continental in size, and to think nationally requires a great effort. The smaller countries of Europe are finding it much easier to think in international terms. They have taken more readily to the League of Nations because they are now thinking of themselves as Europeans, and have concluded that European progress requires that their political organization should keep pace with their industrial and scientific advance. To them the League is not so much a world idea as it is a new conception in European politics, an organization through which European co-operation will be achieved. In political organization the United States is not behind but far ahead of Europe. Our Federal Union gives a measure of security to each of our states which the most powerful nations of Europe do not possess, and will not possess until they too have achieved the United States of Europe. The Civil War definitely put an end to the old states-rights doctrine in our country. Europe is now passing through the stage where her national states are ceasing to talk about rights and sovereignty. In the Locarno agreements there are no reservations about questions of "national honor" and "national sovereignty." It may well be that the historian a century hence will declare that a new Europe was born at Locarno. American nationalism derives its strength and sense of

self-sufficiency from the general feeling of security which prevails throughout these United States. Now the attitude of most people is to leave well-enough alone, and to the average American "God reigns and the government at Washington still lives," so what is the need of anything more? Why join a super-state? Why accept responsibilities under the Covenant of the League? Why should anyone outside the U. S. A. tell us what to do? We can be depended upon to "act at the right time, in the right way and on the side of justice and fair play," says a distinguished Senator and an opponent of the League, in language almost identical with that used by every prominent European statesman in the years from 1900 to 1914!

In his opposition to the League perhaps one American in fifty gave the intelligent reason that we should be entangled in the difficulties of the Versailles Treaty. It seemed reasonable to suppose that the League was designed to be a grand alliance to enforce the terms of the Treaty. As there would be no future for such an organization, those who wanted peace thought that it was America's duty to stay out. The actual working of the League has removed this fear. The solution of the reparations problem under the Dawes plan and the Locarno peace pact have gone a long way toward removing any reasonable opposition based upon the Treaty. The rectification of boundary lines will prove a difficult matter, but without the League's ability to develop a sense of justice and fair play which will effect a peaceful settlement, there can be no solution short of war, and we have no reason to believe that after another war boundary lines will be drawn with greater justice than they were in 1919. Like the Locarno pact, new agreements rectifying boundaries will have to be worked out "within the framework of the Covenant of the League of Nations," if justice is ever to be secured.

Idealistic opposition to the League has centred around the failure of the Covenant to outlaw war. These opponents are against the whole war idea, and they refuse to concede that there is such a thing as a righteous war. It is true that the Covenant permits war under certain circumstances, but the delays and the safeguards provided by the Covenant would make it certain who

the aggressor was, and it is doubtful if any nation, at the present time, would flout the world's opinion by appearing to be aggressively in the wrong. What is contemplated in the Covenant is the legalization of the use of force. The police force of a city does not make war upon criminals, though we sometimes speak loosely as though that were the case. The police use force to maintain law and orderly relations within political society. Now the force to be used under the Covenant of the League of Nations will in time be similar to that exercised by police; the League will resort to force to uphold international law and the system of orderly relations which in time will grow and prevail throughout the society of nations which is centring in the League. To work out such a relationship will require years of development; it will take many a Geneva conference, many more Locarno pacts, to work out upon this planet a society of free states in which war as an institution has been put outside the realm of international law.

However, really to understand the American attitude since the Armistice it is necessary to recall the war psychology and the way we were propagandized. Outside the states along the Atlantic seaboard there was no feeling of insecurity when we entered the war. It was essential for us to manufacture a war sentiment, and, like the practical people we are, we set about doing it in a most business-like fashion. It was necessary to win the military victory, and the sooner it was won, the quicker peace would come. It was not a time for faltering; doubts and hesitations were clearly out of place. Our people wanted peace, and Lloyd George had the right idea, the "knockout blow." Allied propaganda with the hearty approval of our government placed the whole responsibility of the war upon Germany, a thing easily accomplished, for we knew little or nothing about the origin of the war. Discussion of war aims was out of place; to mention Allied imperialism was to give aid and comfort to the enemy, to be punished by a fifteen-year prison sentence, as Mr. Debs soon learned; to suggest an upsetting of the European balance was a piece of treasonable impertinence. While the fighting lasted our

people had it constantly dinned into their ears that military victory would bring in that new and better world which every sane man wanted. It thus came about that military victory was never subordinated, in the popular mind, to political aims. In fact end and means got so twisted in the popular view that discussion of war aims came to be regarded as "defeatist" propaganda. The result was that the Armistice came upon a people whose political education had not advanced one whit beyond that reached at the time of the election of 1916. It was, therefore, the most natural thing in the world that, the war being over, we should hasten to withdraw from Europe. Our people did so with a keen sense of satisfaction. Victory was won; our task was done. Very few indeed felt any sense of national failure when the terms of the Treaty of Versailles were given to the world. Even to this day our people as a whole feel nothing but pride in our effort. It is all very well for European liberals to accuse us of back-sliding in the vital matter of democratic internationalism, which is so pressing a need in Europe, but they simply do not understand that our people never deliberately assumed responsibility for settling political conditions in Europe. English and French propaganda, with our government's seal of approval, assured us that all would be well in Europe when Germany was defeated. The war over, our desire was to get back to "normalcy" with the utmost haste. That is the underlying reason why we refused to accept responsibility for the Treaty and why we rejected the League Covenant. It was natural too that the Republican Party should take advantage of this condition of the popular mind. To be sure the Party leaders were short-sighted, but practical politicians are short-sighted, having their eyes fixed upon immediate success.

The influence of the League is undoubtedly weakened by the failure of the United States to give it active support. Is it sound foreign policy for us to refuse it that support? Our people think it is, and give the traditional reason that we should avoid entanglement. At bottom this means simply that our connection with the League may involve us in European wars. But without

the League have we the slightest assurance that we shall not be again involved? If the League fails, two great alliances will reappear in Europe to hold the balance till war again upsets it. Let us then face the practical question: which, the League or alliances, is better for our peace and orderly development? There is no doubt that the League is the choice of every informed man and woman. Through the League we could exert our influence to prevent war; we could strengthen its agencies of conciliation and conference. We should become better informed about European conditions, and intervention, if necessary, could be made with greater understanding. The alternative is to do nothing, to stay at home and shut our eyes to the growth of two hostile alliances concerning whose policies we should have nothing to say. Then some fine day we shall be told again to get off the seas. Shall we? Have we any reason to believe that we shall find safety in shutting our eyes?

The League of Nations is not a super-state; it is not a European federation; it is not even a league to enforce peace, though in time it may grow into such an association. At the present time it is an organization for conciliation through conferences and consultation. It is exactly the kind of contact which the different regions of the earth should have with each other, and its actual working reveals the general understanding of the political problem of world organization at the present day. Constitutions are not struck off suddenly from the mind and purpose of man. A constitution as a living political organization based upon fundamental law grows or declines with the spirit of the times. Our American Constitution, as we understand it to-day, is the product of a century and a quarter of political growth. Every day with us the government at Washington does something which no one in the Convention of 1787 ever contemplated. That we have such a powerful, centralized government is owing to the rise of the spirit of American nationalism. And in similar fashion the League of Nations will develop and its Covenant take on new significance just as fast as the spirit of internationalism develops among its members. It is safe to say that in time the United States will participate in that new method of international life which the

League is fostering.¹⁰ Economic development will produce among us the will to promote international stability. Our independence and sovereignty, like that of the other nations, will have to be limited by a due regard for the welfare of all mankind. Those patriotic men among us who are opposed to our participation in the work of the League would do well to study the conditions under which our national Constitution was formed. They will find that equally patriotic men like Patrick Henry and Samuel Adams opposed our Federal Constitution. To them it was intolerable that Virginia or Massachusetts should lose control of their local affairs. But in their desire to preserve local independence they were blind to the necessity of national union to prevent inter-state anarchy, the inevitable result of pushing local state interests too far. Those equally patriotic men among us now who will have nothing to do with the League because it may check our independence of action are committing exactly the same error.

Every country that participates in the League does so in accordance with its constitutional provisions and conventions. Practically the obligations assumed by the League Covenant are the same as those of any treaty which places limitations on the governments making it. If we would only think of the Covenant as a treaty, not the constitution of a super-state, there would be less misunderstanding as to the nature of its obligations. The Covenant requires all the members of the League to exercise forbearance towards one another, to be willing to submit to justice and fair play, to settle their disputes by arbitration or conciliation. Is that too much of an obligation to be assumed by our great nation? It is altogether natural that the Senate of the United States

¹⁰ It now seems likely that we shall enter the League piecemeal. We have been participating in some of the important conferences of the League, such as those dealing with opium and the traffic in arms and munitions. Many of our citizens are serving on important commissions. These activities will familiarize our people with the working of the League, and make it seem less foreign to us. Finally, we are to support the World Court; we are to help elect its judges, and we are to do our share in paying them. The old animosities are dying down; Mr. Wilson and Mr. Lodge will soon be figures of the past. A new generation is arising which in time will take a modern, realistic view of our part in world politics.

should take the Covenant up article by article, debate each part thoroughly, and grow very grave over difficulties real and imaginary. Our constitutional practice and the power given our Supreme Court make it natural that we should take the Covenant much more seriously than any other people did. As a matter of fact the real development of the League would not be different if we entered with or without reservations; it would not be different with or without Article 10. The League will become what the spirit and the will of its member nations make it; it will grow and change with the development of the international mind. It has never been of much importance what reservations were attached to our entry; it has always been of great importance that we should be represented at the conference table of the League, so that our influence might be exerted in the making of great decisions and the shaping of world politics, and especially so in the early days when precedents of lasting significance are being established.

It is a stock argument with those who oppose our entrance into the League of Nations that we must stay out in order to safeguard the Monroe Doctrine. But the Doctrine is already taken care of in Article XXI of the Covenant. And, more fundamentally, the provisions of the Covenant for arbitration and conciliation designed to prevent aggressive action on the part of any government have the same purpose as the Monroe Doctrine in its original form. If it is still our purpose through the Doctrine to safeguard the Latin American Republics and provide for the peaceful development of the western hemisphere, then it is indeed difficult to see why the League will not promote that object. In fact, as the League of Nations develops into an effective organization for peace, the famous Doctrine will be absorbed in its wider humanitarian ideal. But in that case the doctrine will have performed its task. Of course, with us the Monroe Doctrine has always been a name to conjure with, and there are even those among us who think that its chief purpose is to heighten our *amour propre*. They argue that to make it a regional understanding agreed to by all of the American republics is to spoil it; that for other nations to consent to it and agree to support it is to rob it of its true meaning and purpose, and pervert its historical sig-

nificance. For the most part this line of reasoning is sentimental buncombe, but we ought not to pass by the fact that the Latin American states see method in such madness. They feel that what we are aiming at is not their protection but protectorates over them, and that "Monroeism" is another name for American imperialism. The truth is the Latin republics at the present day fear our domination far more than they do European imperialism, and their fears were increased by Ambassador Fletcher's declaration at the Santiago Conference that the Monroe Doctrine was a unilateral expression of our individual policy, and that we alone could determine its applicability in any concrete case. This position was re-enforced by Secretary Hughes in his speech of August 30, 1923, when he declared that, "The Monroe Doctrine is distinctly the policy of the United States; the government of the United States reserves to itself its definition, interpretation, and application." This was Secretary Olney all over again, and it seems to be now the position of our State Department.

All of the South American republics but one (Ecuador) are members of the League of Nations. Suppose a disagreement arises between Chile and the Argentine, and the dispute is referred to the League for settlement, what will be our position in the matter? Are we to deny the League's competence or not? Suppose the decision did not suit us, what then? The Argentine and Chile are independent states, and would resent any attempt at overlordship on our part, and we may be sure their Latin sisters would stand with them. They would most naturally resent our interference and not hesitate to denounce the Olney-Hughes definition of the Monroe Doctrine as imperialistic tyranny. Of one thing we may be sure, our failure to join the League of Nations coupled with our State Department's position on the Monroe Doctrine has not improved Pan-American relations,—a fact which the Santiago Conference brought to light. There can be no doubt that friendly Pan-American relations would be increased by our joining the League, while at the same time the Monroe Doctrine in its original, liberal purpose would be strengthened.

There is now no rational opposition to our participation in the League. That is true, but that does not mean that we shall soon

take our place within the League, for our opposition is not rational; it is traditional, sentimental, emotional. Every reasoned argument in its favor can be answered by a catchphrase, for our habits of thought work against the League. "Independence," "the right to control our own affairs," "the liberty we enjoy," "avoid entanglements"; these phrases have the "right" ring, and their emotional appeal is very great. Practical politics has the aim of winning elections, and we shall find these habits of thought appealed to so long as they are potent. Just as the friends of the League in Europe are handicapped by the "great power" idea, so the friends of the League in America are handicapped by traditional prejudice. Education, with the wisdom and understanding which it gives, is the only remedy. Mr. Wells, is right—human history is becoming more and more a race between education and catastrophe.

CONCLUSION—AMERICAN AND INTERNATIONAL CO-OPERATION

With us our greatest danger, as we face the problems of a new age, is our national tendency to confuse sentimentality and intelligence. We are apt to reason in this fashion, "While we desire always to co-operate and help, we are equally determined to be independent and free. Right and truth and justice and humanitarian efforts will have the moral support of this country all over the world. But we do not wish to become involved in the political controversies of others. Nor is the country disposed to become a member of the League of Nations or to assume the obligations imposed by its covenant." If every nation of the world is as equally determined to be "independent and free," there can never be a solution of the problem of war. War is the very assertion of a nation's independent action. Austria wanted a free hand with Serbia—and she took it! How can we support right and truth and justice morally, without becoming involved in the political controversies of other nations? This well-meaning quotation from President Coolidge's annual message of December, 1924, admirably sums up the state of American public opinion and lack of understanding of world politics to-day. The more

assertive Mr. Dawes said the same thing in his acceptance speech, "The League of Nations, however noble may have been its intentions, was not approved by the people of the United States because it did not make clear to their minds that it did not encroach upon the sovereignty and power and right of independent decision of the United States, as to its own duty and action under all circumstances." What the average American, and doubtless Mr. Dawes himself, does not understand is that this position is precisely what the world denounced as Prussianism. If the statesmen of other nations were to hold such views and act upon them, peace would never pass beyond the sentimental stage. We shall talk peace, but go on having wars.

The reason why we Americans can be sentimental about peace, while obstructing the most practical efforts in that direction, is that we have a perfect sense of security, and we are the only nation that does have that. The other nations have come to know that they must work out their security through co-operation, but our potential strength combined with our favored geographical position has solved the problem for us. We show our practical interest in peace by continually suggesting disarmament while never coming to grips with the real issue. It is not armaments but security that is the problem, and unless war is outlawed in some practical way there cannot be disarmament. No American initiative towards disarmament will amount to much until we realize that limitation of armaments is bound up with the cognate question of security, and that in the end can only be worked out through international political organization.

But with all our sense of security, we, nevertheless, have a great stake in world peace. We have military security, we are not likely to suffer invasion; but we have no such economic security, we are not secure against depression and economic disorganization. Our international trade will grow; economic interdependence will take on greater significance for us; the lives and well-being of our people will to an even greater extent than now be dependent upon conditions outside our own country. This makes the peace problem not merely a sentimental one but also an extremely practical one for us. That is why our concern with

foreign trade has all through this study brought us face to face with world politics. In spite of our traditions, we shall be forced more and more to interest ourselves in world affairs. We shall not forever stand aside and refuse to co-operate in the only effective way, through organized association with other nations, that is, through the League. The Eighteenth Century conception of sovereignty and independence, which gave this nation birth, is not a practicable political ideal at the present time. We, and all the world, have passed from economic independence to economic interdependence; on the political side we must advance from national sovereignty to the more complete ideal of organized international co-operation.

APPENDIX A

FOREIGN EXCHANGE AND PARITY

We now intend to supplement the discussion in the text with a more detailed account of the working of the foreign exchanges, and we shall begin with an examination of the factors which determine the rates of exchange. In the pre-war days the principal quotations were kept within the gold points, for all of the great commercial nations possessed sound currencies on the gold standard. Under such conditions it is obvious that if the total price of exports just equals the total price of imports (we are using "exports" and "imports" in the broadest sense, including invisible items), then a state of equilibrium is reached and the exchanges are at par; for exports will exactly pay for imports and it will not be necessary to send gold from one country to the other.

Let us now consider a situation in which the United States had exported to Great Britain a larger amount of goods than she had imported and that the money value of our exports exceeded the money value of our imports. Such a situation produced in New York more bills for sale than there was demand for. In that case some of the exporters lowered their prices so as to attract buyers, for they did not want their bills left on their hands for any length of time. But evidently some of the bills were left over. The exporters holding them had then the alternative of sending their bills to London so as to get gold in exchange. However, this caused the expense which we noted in the text. Our friend Black did not then have to pay Brown par value. With the supply greater than the demand the price of bills dropped and Black had a chance to buy at a lower rate. Brown upon reflection found that he could get gold, but deducting the expenses his net return was only \$4846.00, and so he decided that Black could have his bill for this price. When our exports exceeded our imports pounds sterling quoted in dollars were at a discount. The American exporter who agreed to draw for his account lost. Had the Englishman been required to remit for his purchase, he would have lost. It would take more than £1000 to buy a draft on New York for

\$4867 when the pound was at a discount; or what meant the same thing, the dollar was at a premium.

Now let us suppose that conditions were reversed and that the money value of exports from the United States fell below that of imports from the United Kingdom. In that case the demand for bills was greater than the supply, which forced the price above par. How high did it go? Obviously only to the point where it was as cheap to send gold. In that case Black at the most paid \$4886 for Brown's bill. Black lost because he was under contract to remit £1000 at a time when the pound sterling was at a premium. Had White drawn on Black for \$4867 he would have lost; for with the pound quoted at a figure higher than \$4.867, he would get less than 1000 sovereigns when he sold the bill in London.

Thus, according to the state of the trade balance, two specie points were determined. In the normal pre-war days they were roughly \$4.89 and \$4.845 per pound. At the former, gold tended to be exported to England from the United States, and at the latter to be imported from England into the United States. The former rate was said to be unfavorable to the United States and the latter rate favorable. The terms "favorable" and "unfavorable" come down to us from the days when Mercantilism was the accepted economic theory, and an inflow of gold was regarded as a favorable and an outflow an unfavorable condition. The Mercantilists' theory about the trade balance was unsound; but in the sense that the pound sterling was cheaper or dearer in American money the terms had meaning for merchants and bankers. Thus, when the rate was favorable to us, we could pay our debts in pounds with fewer dollars.

The conditions which we have examined are artificially simple, made so for the purpose of analysis. We must remember in all modern business, there is minute specialization of function. No exporter would sell his bill direct to an importer; nor would he consider the possibility of shipping gold, or calculate the advantages one way or the other. All this is done by a class of middlemen between the exporters and the importers. Banks frequently have a foreign exchange department for the handling of this business, and firms known as foreign exchange houses made a specialty of it. In London a special class of bill brokers have long figured prominently in these dealings. The middlemen in one country have correspondents in other countries on whom they sell bills, and on whom they issue letters of credit giving individuals the privilege of drawing upon their correspondents

up to a certain amount within a stated period of time. In turn they meet bills drawn by their correspondents and those to whom the latter have issued letters of credit. All these dealers are buying exchange constantly from exporters and selling to importers. Even when the exporters offer more bills than are demanded they still continue to buy them, but then only at a discount; for some will have to be cashed abroad or held till there is a turn in the trade balance. The dealers in foreign exchange make a profit which is calculated on the narrowest of margins.

Bills that are sold always carry indorsements; so that in case a bill is not paid, the loss can be traced back to the original drawer of the bill. As in all other trade transactions the seller of the goods must bear the risk, and in international trade the credit of the purchaser is usually high class. Banks and dealers in exchange rarely lose on bills; they can fall back on the prior endorsers. Not only that, but it is a common practice of bankers to require that the bills of lading accompany the bills of exchange, when the latter are drawn under letters of credit. As the bills of lading consign the goods to the order of the firm issuing the letter of credit, unless and until the draft is paid, the bills of lading will not be surrendered. On the whole the bill of exchange is one of the safest pieces of commercial paper.

In our supposititious case above it appeared that when a bill was sold at a premium or a discount, the specie points were reached. But the presence of dealers in exchange complicated the matter. If more bills are offered by exporters than the importers require, the dealers may still buy them in anticipation of a turn in the trade balance. If the dealers anticipate that the turn will come soon, they will buy at a small discount; the rate of interest for short time loans being an important factor in determining the amount of the discount. If they figure that the turn will not come for some time the discount naturally will go to a lower point. In pre-war days this speculative function of the dealers often obviated the necessity for gold movements. So too the fact that they kept balances with their correspondents in foreign countries. Suppose that a dealer held an excess of bills, and that a low rate of interest prevailed in his country while abroad the rate was high; he found it to his advantage to send the excess bills to his correspondent with instructions to collect and place the balance to his credit, and thereby benefit by the higher rate of interest on his deposit. When the influence of speculation is considered it becomes apparent that competition between dealers deter-

mined a rate of exchange somewhere between the gold points. The state of the trade balance and the speculative activities of the dealers in competition with one another produced the fluctuations in the rates of exchange which took place from time to time under normal conditions when the limits were fixed by the gold points.

Time bills naturally sell for less than sight or demand bills. Like promissory notes that do not carry the market rate of interest they would have to be discounted, and the length of time for which they run is an important factor in determining their price.

In the simple case which we considered, the American exporter drew a bill upon his English customer, and sold it to an American importer to pay his debt to an English exporter. In such a case the English importer's debt is said to be *drawn for*, and the American importer's debt *remitted for*. Obviously the conditions could be reversed; the transaction might have started in London as well as New York. As a matter of fact such transactions take place constantly in each city. Whether an account is drawn for or remitted for depends as a rule on the arrangements made between the purchaser and the seller. In the days before the war much the larger part of British exports were remitted for, owing to the position of London as the international monetary centre, and the convenience of drawing bills on her. All transactions, whether in New York or London, are under the close scrutiny of the dealers in exchange; so that a very close equalization of rates is brought about.

So far we have considered the exchange rates between two countries only, and have regarded them as dependent upon the trade balance between those two countries. We have still to consider the so-called "triangular" arrangements; for the rates of foreign exchange are determined by the dealings between a country and *all* the other countries with which it trades. Take the familiar case of the trade between the United States, Great Britain, and Brazil. The United States imports chiefly coffee, in large quantities, from Brazil, and exports very little to her. England exports large amounts of manufactured articles, textiles and steel and iron products to Brazil; the value is in excess of that of imports from the latter country. On the other hand Great Britain imports cotton, grain and other food products, in abundance from the United States. How will the American wholesale grocer be able to pay the Brazilian planter for his coffee? American exporters holding bills on Rio de Janeiro are not to be found. But there are plenty of cotton exporters with bills on Liverpool or

London, and the American importer has no difficulty buying such bills which are readily accepted in Rio where there are importers with debts to pay in England requiring just such bills. Thus, through the mechanism of the foreign exchanges wheat from the United States to England can be made to pay for coffee from Brazil to the United States and the coffee in turn pays for the Brazilian imports of cotton cloth from England. For another familiar example of "triangular" dealings take the trade between the United States and the Oriental countries at the close of the Nineteenth Century. We imported more from India and China than we shipped to them, but as they bought heavily from Great Britain, our importers were enabled to pay their debts to the Orient by bills on London. In fact, London's position with regard to world trade up to the outbreak of the war was such that the sterling bill was the most used form of remittance for payments which could not be made directly.

The position of a country's exchanges is determined by the whole of its international trade, and the total of its credits must be considered with regard to the total of its debits. If a country maintains a general excess of exports over imports for a considerable period of time, then foreign exchange rates will be favorable to it, and gold will flow in. In that case exchange quoted in terms of its currency will be at a discount. On the contrary, if, for some time, there is an excess of imports over exports, unfavorable exchange rates will prevail, and exchange quoted in terms of its currency will be at a premium. In our trade with the Oriental countries noted above, we imported tea, cocoa, and all kinds of spices greatly in excess of the commodities we sent to those countries, and still were under no necessity to ship gold to them because our trade balance was such as to permit us to pay with sterling bills; which in pre-war days were as good as gold the world over. Owing to our large exports of cotton, grain, and other raw materials to Great Britain, sterling bills are always available.

What happened when the exchanges became unfavorable to a country? For such a condition, what were the *correctives*—a term like favorable and unfavorable, handed down to us from the balance of trade doctrines of the Mercantilists of the Seventeenth and Eighteenth Centuries. How could an unfavorable exchange rate be corrected? That is, how could the rate be brought back to par? The usual methods were these: First, increase of exports; Second, decrease of imports; Third, negotiation of foreign loans; Fourth, a rise

in the rate of interest. The first two methods are obvious. The third and fourth are closely related, and might be classed under one head.

It is clear that a drain of gold could be stopped if the importers could put off payment by securing an extension of time from their creditors in the foreign countries. This would ease the situation. A high rate of interest in the importer's country would be an inducement to an extension of time. Here again the matter was not so much in the hands of the actual importers as of the bankers and foreign exchange dealers who actually financed their operations. Here the "finance bill" played an important part. Commercial bills have a most inconvenient habit of coming into being only at certain times a year. In the fall when our harvests of grain and cotton have been gathered, and extensive shipments have been made to Europe, a huge mass of bills comes into being on this side of the water. If left to itself, the creation of such a mass of bills would naturally flood the market, and in pre-war days would cause the exchange rates to move violently to the point where gold in large amounts would have to be imported from London, Paris, and the other European centres. But this clumsy process of settling claims in metal was obviated by means of the "finance bill." Let us consider the situation with respect to London and New York. In the summer American tourists are spending heavily abroad, and American corporations are paying interest upon stocks and bonds held in England. At such a time bills on London are scarce and wanted in New York. Little produce is being shipped, and so ordinary commercial bills are not being drawn. Instead then of bills based upon genuine commercial claims coming into being, finance houses on both sides of the water agree together to create bills based upon fictitious claims. Thus in July a New York house will draw a bill on its London correspondent, and sell it for a high rate for bills on London are wanted and dear. The New York house by selling this apparently fictitious bill benefits itself for it secures a good price. It also benefits its customer who must make the remittance, and before the war it helped to prevent the rate of exchange going to the point where gold would have to flow from America to England. But that is not all the benefit that comes from the use of the finance bill. Such bills must be "covered," that is there comes a time when a real remittance must be made from America, and that means that the New York house must furnish its London correspondent with a genuine bill before the finance bill falls due. We shall suppose that the latter is drawn in July, payable at ninety days after sight, and

that it arrived in London and was accepted on July 15th, so that before October 16th (ninety days plus the usual three days grace) the American house must buy a draft on London and mail it to its English correspondent in time to meet the finance bill when it falls due. Thus the American firm comes into the market as a buyer of sterling exchange, just at the time when the market is flooded with bills drawn against cotton and grain shipments. It is the moment most favorable to New York, and the American firm makes a profit by buying a bill on London cheap. A timely demand for sterling bills is created and in pre-war days this tended to keep the sterling quotation above the gold shipping point. It will, therefore, be readily seen that this useful device checked an unnecessary double movement of gold. In the pre-war days when gold moved freely, it was the principal factor in preventing gold flowing from New York to London in July and back again from London to New York in October. Finance bills still play a prominent part in international trade because of their obvious economic advantages.

In normal times raising the discount rate was the recognized way of checking a drain of gold. It produced this result by making it more profitable to invest money in the country so acting. Thus if the rate of interest in England was raised to 7 or 8 per cent it became unprofitable to discount time bills there, and so they were held in the exporter's own country awaiting maturity, and so the pressure on London was relieved. Furthermore, a high rate of interest depresses the price of even the best securities, bonds with fixed moderate interest rates and high class stocks. As these fall in price the inducement to foreigners to invest in them increases, and this will alter the balance of indebtedness and tend to check the drain of gold. Not only that, but trade in general is checked by high interest rates, and prices of commodities begin to fall; a change which stimulates exports and checks imports, the fundamental condition of most importance in correcting the exchanges.

The same methods which were used to correct the exchanges in pre-war days are used now to prevent a fall in present-day quotations. If the currency is stabilized, an increase of exports and a decrease of imports will raise the rate. So will a foreign loan and a high interest rate raise the quotation. With paper currencies speculation plays a larger part than with the formerly normal, gold currencies. The credit of the government in question enters into the problem. If a government cannot balance its budget, it will sooner

or later be forced to inflate its currency, and speculators will trade on the prospect. The sensational fall of the franc in 1924 was due to bear operations based upon legitimate fears for French credit. The fall was stopped by negotiation of a large external loan. The steady rise was due to the belief that with increased taxation the French Budget would be balanced and that payments from Germany would be forthcoming under the Dawes plan. A rise in the French interest rate was a contributing factor in 1924.

When a country has an inconvertible paper currency, depreciated by excessive issue, gold in that country will always be at a premium; and so two sets of influences will act upon the foreign exchanges, the usual shifts due to the trade balance and the extent of the depreciation of the paper. (In the last analysis the value of the paper is a gauge of governmental credit.) Suppose that the price of gold in French paper money is such that it takes three paper francs to buy a gold franc; then the real par with the American dollar is about 6.42¢ per paper franc, and the influence of the trade balance will be such as to make the quotation go above or below this rate. Thus when French exports are relatively large, the exchange rate may be quoted at 6.47¢; and when French exports are relatively small, the exchange rate may be 6.39¢. Generally speaking when a country with a depreciated paper currency has had comparatively heavy exports its exchange sells at a premium less than the current gold premium, and vice versa; when its imports are comparatively heavy, its exchange sells at a premium greater than the current gold premium.

When a country's legal tender is a stabilized, depreciated paper currency, its exchange rate depends chiefly upon the gold premium of the paper; for the fluctuations due to the trade balance are kept within narrow limits, while those due to the gold premium are potentially wide. Therefore, at the present time the price of foreign exchange in American money is a good indication of the state of the paper currency and the government's credit. A very convenient way to obtain the exchange rate between two countries with depreciated paper currencies such as England and France in 1924 is to divide the one rate by the other when expressed in terms of our money. Thus in the middle of April, 1924, when the pound was quoted at \$4.35 and the Franc at 6.21¢, the approximate exchange rate between England and France was around 70 francs per pound sterling.

Suppose two countries with inconvertible paper currencies are dealing with each other—the normal situation just after the war—what

then determines the par of exchange? Exchange fluctuations cannot be correlated to mint par, and the problem becomes complicated. The old mint par was a simple calculation, obtained by comparing the value of gold which two standard coins contained, e. g. £1 = \$4.867, 1 franc = 19.3⁶/₁₀₀, £1 = 25.22 francs. All the great commercial countries were on a gold standard and gold was, therefore, the international currency. Thus before the war price movements were determined by the same factor which determined movements of exchange rates: the possibility of shipping gold. Prices in the great nations were gold prices, and an increase in prices in one centre would bring about the export of gold to other centres where prices were lower, and the consequent lessening of the supply of gold in the first centre would bring about a decrease in prices there. The extent of alteration in the price levels was limited by the gold points. To-day many currencies have lost their gold value and parities are determined by the purchasing power of the different currencies. "Purchasing power parity" has now taken the place of gold points as the limiting factor in many cases.

Purchasing power parity is determined by comparing prices in two countries. If a certain number of commodities can be bought in England for so many pounds and the same commodities that enter into international trade can be bought in Italy for so many lire then the parity will be the number of lire divided by the number of pounds. For example, if a certain amount of such goods in England cost £100 and in Italy 9500 lire, then the parity is £1 = 95 lire. It is thus seen that while mint par is a comparison of the values of certain amounts of gold, purchasing power parity is a comparison of prices of commodities entering into international trade. Certain qualifications must be kept in mind. (a) The price levels compared are not general price levels in the different countries but the price levels of goods entering into trade between the nations. Obviously an Englishman living outside Italy can use his lire only in the purchase of goods which can be imported into England from Italy, and his purchases affect only the price level of such goods. (b) In the second place the price levels must be so adjusted as to give due allowance for freights, customs duties, or any other factors making artificial differences between domestic and export prices. With these modifications the price levels in the two countries will determine a parity about which the actual rates of exchange will fluctuate, as in pre-war days they fluctuated above and below the mint par.

Exchange rates sooner or later will swing back to the purchasing power parity; that is, at the present time, they tend to come back to this parity, just as in pre-war days they tended to correct themselves. Suppose it takes 95 lire to buy in Italy what £1 will buy in England, but the exchange rate is $\text{£1} = 105$ lire. In that case an Englishman could get 95 lire for about 18 shillings. This will tempt English importers to buy Italian goods for they will make 2 shillings a pound exchange profit on Italian purchases. This increases the demand for lire, and thus sends their value up. The demand will continue so long as the exchange rate is below the par of purchasing power. Suppose conditions are reversed and the exchange rate is $\text{£1} = 85$ lire. Then British exports to Italy will increase sending up the rate of the pound with increasing demand for sterling.

In the above illustration we assume that the currencies are stabilized. Suppose the currency of one country is further inflated and its purchasing power falls. In time new price levels will prevail and a new parity will be established. Apprehensions with regard to a government's credit may depress the exchange rate; if these apprehensions turn out to be unfounded the exchange rate in time will return to the true parity. In the case of the fall of the mark the price level frequently had to adjust itself to the exchange rate. Unbalanced budgets and reparation payments put such a strain on German credit that it cracked. The sensitive exchanges discounted this tendency, imports cost more and prices went up. Those, however, were exceptional circumstances growing out of the reparations demands, and ordinary trade correctives could not operate. There are cases where the price levels and the exchange rates have moved towards each other. After a country's note issue has been increased the fall in the exchange rate may go too far. When this is perceived the exchange rate recovers, while at the same time the price level rises. Thus the exchange rate and the purchasing power parity would be moving towards one another, and in time both the price level and the exchange rate will have adjusted themselves the one to the other. What is most essential for the recovery of international trade is stabilized currencies. If only the currencies can be stabilized, price levels will adjust themselves accordingly, then parities will fall into line with purchasing power, and trade will be encouraged with the return of certainty; the speculative element will be reduced, and normal conditions return, even though the gold standard is not restored for years, or never restored.

APPENDIX B

THE ORIGIN OF THE WAR

No generation of Europeans, who fought a great war, were ever so fortunate as the present in finding out the methods which precipitated it. First of all, when the Germans invaded Belgium, they searched the Brussels' archives and published batches of important secret papers, including records of "conversations," understandings, and the reports of the Belgian ambassadors at the chief European capitals. Of course, these papers were carefully hand-picked to support the German case, all the documents damaging to the Entente being given wide publicity, while those injurious to the German thesis were carefully suppressed. Still, much valuable information may be gleaned from these papers. When the Bolsheviki seized power, they published to the world the "secret treaties" and hundreds of other diplomatic dispatches relative to the aims and purposes of Entente diplomacy. Had the war ended in a draw, we should not have much more inside information than that contained in these Belgian and Russian documents. But the complete defeat of the central powers, bringing about revolution in Germany and the dismemberment of the Dual Monarchy, resulted in the opening of the archives of Berlin and Vienna. We are thus in position to gain a fairly accurate view of European diplomacy both from the side of the Triple Entente and the Triple Alliance.

THE CRISIS OF 1908-9

The Japanese War had put an end to Russian ambitions in the Far-East. Threatened revolution at home engaged the attention of the Russian Government, and it was not till 1907 that this internal danger was removed. In that year Russia came to terms with Great Britain over the partition of Persia and other Asiatic questions, so that the danger of British hostility was removed, and the first steps actually taken towards a friendly understanding. Meanwhile Russia, profiting by the lessons learned in Manchuria, had been reorganizing

and strengthening her army, so that by 1908 she was ready to begin her "forward" policy in the Balkans—a new move in her never-ceasing determination to reach Constantinople and the Straits, now accentuated by her expulsion from the Liao-Tung Peninsula.

In January, 1908, Count Aehrenthal, the Austrian Foreign Minister, obtained from the Sultan permission to plan a railway through the Sanjak of Novi-Bazar which by the treaty of Berlin, 1878, was subject to the military occupation of Austria. This aroused Russian opposition, the speeches of Miliukoff and others in the Duma correctly representing the national sentiment. The Russian Foreign Minister, Isvolsky, was so much opposed to the project and so suspicious that he would hardly listen to the Austrian Ambassador, Berchtold. But Isvolsky's attitude softened and by April he expressed to Berchtold his desire for an understanding with Austria. The latter would be permitted to build the Sanjak Railway but must agree to the Danube-Adriatic Railway giving Serbia access to the sea through Albania. Aehrenthal suggested that the line go through Bosnia. Negotiations continued, but no agreement was reached until Isvolsky on July 2nd declared his willingness to accept the Sanjak Railway, and if the *status quo* could not be maintained to permit the annexation by Austria of Bosnia, Herzegovinia, and the Sanjak, provided the Straits were opened to Russian warships. This surprising suggestion of annexation pleased Aehrenthal immensely, and the young Turk revolution indicated that the moment for annexation had arrived. Final conversations were held, on the invitation of Berchtold, at Buchlau and early October, according to Aethrenthal, was agreed upon for the date of formal annexation, and a proclamation by Francis Joseph was issued accordingly on October 6th.

The annexation naturally produced a severe crisis. Nothing was known of the preliminary negotiations in Russia and Serbia,¹ and the outcry was bitter and vigorous. Isvolsky realized his mistake and in private complained that he had been deceived both as to the time and the conditions of the annexation. On October 13th, Sir Edward Grey joined him in demanding a European conference to consider the question, but Grey, ignorant of Isvolsky's part in the violation of the Berlin Treaty, would not listen to suggestions of compensation for Russia, making it plain to Isvolsky that the question of the Straits must not be raised in the conference.

¹ For the true story of the Crisis of 1908, see Friedjung, *Das Zeitalter des Imperialismus*, Vol. II, chs. XXIII to XXV.

Naturally Serbian hostility was most intense. Italy's opposition, because of her position on the Adriatic, was pronounced. She like Russia wanted compensation, but, though the Italian people did not know it, their foreign minister, Tittoni, was in an awkward position having agreed to annexation in advance.

The Crisis revealed the solidarity of the Triple Entente; the British, French, and Russian ambassadors at Constantinople informing the Porte that all changes in the Treaty of Berlin, to be valid, required the consent of all parties thereto. On the other hand Germany, in the words of the Kaiser, stood by her ally "in shining armor." On October 13th Bülow informed Grey that Austria was opposed to a conference and that Germany was bound to support her. Autumn passed and winter came with Europe in a diplomatic deadlock. Aehrenthal compromised to the extent of giving up military control over the Sanjak, and agreed to pay Turkey for the loss of state property. Turkey agreed to sanction the annexation, and the Austrian government contended that this ended the matter. However, Serbia held out and Russia supported her. On March 23, 1909, Bülow sent what reads very much like an ultimatum to the Tsar's government demanding assent to the cancellation of Article XXV of the Treaty of Berlin. Isvolsky, after consulting the Tsar, agreed to the German demand. The assent of the other powers followed and by the end of March the Crisis was over.

In 1909 Russia was not ready for war; France was indifferent as to the fate of the Balkans; and Great Britain wanted peace. But there can be no doubt that Austro-German conduct strengthened the Triple Entente and sowed the seeds of the Great War. At the end of March, Petrograd informed Belgrade that, "as soon as her equipment is ready Russia will renew the matter with Austria-Hungary," and after pointing out to the Serbs the folly of going to war with Austria alone, the note conveyed this sage advice, "conceal your intentions and prepare yourselves for the days of rejoicing will come."

RUSSIA'S "FORWARD POLICY" IN THE BALKANS

The diplomatic records show conclusively that from the beginning of 1909 onward the policy of the Russian foreign office was directed toward the dissolution of the Austrian Empire. This was the one supreme aim of Muscovite foreign policy, and for five years it was pursued relentlessly; sometimes aggressively, sometimes covertly. The

method was to strengthen the Slav states in the Balkans with the ultimate object of extending Russian hegemony over them. This was the Pan-Slav policy which the Germans feared so much as it came into direct conflict with their own plans in the Near-East. There is no reason to believe that the Russian leaders ever for a moment thought that Germany would sit idly by while they carried out this policy. Meanwhile these Russian plans inflamed Serbian nationalism, for they promised the liberation of all their South-Slav brothers, and the creation of that greater Serbia, the goal of their irredentist dreams. In January, 1914, the Serbian minister, Pashitch, sounded the Tsar on the subject of the marriage of the Serbian Crown Prince to one of the Russian Grand Duchesses, and found him favorable to the idea. Thus by the spring of 1914, the Pan-Slav plan had reached the point where these things had been definitely decided upon: the dissolution of the Austrian Empire, the uniting of the South Slavs in one state with Serbia at its head, the binding of the Russian and Serbian royal houses in marriage, and the control of the Straits by Russia.

The whole subject of the Straits was thoroughly discussed by a Crown Council which the Tsar summoned on February 21, 1914, and over which the foreign minister, Sazonoff, presided. It was composed of military, naval, and diplomatic experts, and was called to consider the situation created by the arrival in Constantinople in the previous December of General Liman von Sanders at the head of a large military mission to effect the reorganization of the Turkish Army. The Council decided that if Turkey lost control of the Straits, Russia could not allow another power to settle on their shores. The Chief of the General Staff was of the opinion that the occupation of Constantinople would be impossible without a European war. Therefore the Council recommended the improvement of transportation both by land and sea and the strengthening of the Black Sea fleet.²

To line France up squarely behind Russian policy was a difficult matter, for the French people had no desire to help Russia accomplish her purpose in the Balkans, and for historical reasons were opposed to Russian control of the Straits. But, the truth is, the French could not check Russian purposes in the Balkans without endangering the Alliance upon which not merely security, but also the accomplishment of so many French purposes depended. This consideration was fundamental and sufficient. However, the Russian diplomatists were astute enough to realize that in such a country as France public opin-

² See Laloy, *Documents Secrets*, pp. 74 to 100, for the official report.

ion counts, especially Parisian opinion, and so in 1911, we find M. Isvolsky (now ambassador at Paris) informing his government that it would be necessary to win the Paris press, and he suggested a generous use of money in the manner of Tittoni (Italian ambassador at Paris) at the time of Italy's move against Tripoli. The suggestion was accepted in Petrograd, for a little while later we find the Russian ambassador writing the foreign minister: "I am attempting to maintain the desirable feeling in governmental and political circles and at the same time am trying to influence the press. In this respect most remarkable results have been achieved, due partly to measures already taken. As you know, I do not distribute the subsidies directly, but the distribution is made with the aid of the French minister, and has already had the necessary effect. I am myself trying to guide the more important Paris newspaper such as the '*Temps*,' the '*Journal des Debats*,' and the '*Echo*' by personal influence."

While the Russian plans were maturing, the crisis of 1911 came on. Russia stood solidly behind France who had the full support of Great Britain,—a truly formidable combination, which the Russian foreign office determined must be kept intact. The most far-reaching diplomatic consequence of the 1911 crisis was this. France had the complete support of her ally in a matter that did not concern Russia primarily. It was, therefore, a sound inference that the Dual Alliance bound the two countries together in an inextricable manner, and in any future crisis they would act as one. This raised a grave question. France profited in 1911, but might she not suffer the next time? French liberals raised the question in this form: If Russia started a war of aggression, would France have any freedom of action? We must remember that the terms of the Dual Alliance remained a secret until the Bolsheviks exposed them to the world's gaze. This question was really an old one which had gained new and vital significance.

Away back in November, 1896, M. Millerand had asked whether the Alliance was simply a treaty to promote a good understanding between the two countries, or whether it was a military convention providing for joint action in case of war. He asked pointed questions as to the extent and nature of the agreement. Naturally enough he received an answer characteristic of every foreign minister in Europe: it was not in the public interest that his inquiries should be gone into in detail. The French people had been told nothing definite about the nature of the Alliance, yet the foreign minister in all seriousness declared that everything that could and

should be said with safety in public had already been said. Whereupon, M. Jaurès remarked that silence meant either one of two things, that the treaty was an illusion, or that the French Government had lost the right to take the French People into its confidence. The latter was the correct view, strict secrecy being pledged. Two years later, Jaurès and Millerand raised the same question and got precisely the same answer, the Chamber again approving the attitude of the foreign minister. Thirteen years afterward the crisis of 1911 brought out a strong debate. The French Socialists felt that, shielded by the Alliance, their government had acted in an uncompromising and unconciliatory manner. In the debate of April 6th they assailed the treaty as a maker of war. On the other hand, the imperialists and the votaries of *revanche* wanted to know if the treaty merely guaranteed the *status quo* to the advantage of Germany. This was a ticklish question, but the foreign minister faced it, declaring openly that the treaty did not merely guarantee the *status quo*, that it covered all eventualities, and permitted each government to develop its own policy. He brought the Senate to its feet by declaring that the question of Alsace-Lorraine would have to be settled before the pacifist idea of arbitration could be accepted by France. He closed with a foreign minister's usual cloud of words. The exact provisions of the Alliance were as much an enigma as ever to those not in the inner circle of the Quai d'Orsay.

The Russian forward policy decided upon in 1909 had to wait till 1912 before French sentiment was such as to support Russian purposes. The imperialist and nationalist press had inflamed public opinion by representing German action in 1911 as nothing short of brutal aggression. In January, 1912, the ministry headed by M. Joseph Caillaux, which was pledged to a policy of friendly relations with Germany, was forced to resign, and was replaced by that of M. Raymond Poincaré, a Lorrainer who advocated peace combined with firmness and preparedness. Poincaré himself took charge of the foreign office, and immediately a change in French attitude was perceptible. The revelations from the Russian archives make this abundantly clear. Isvolsky's dispatches have an exultant tone. He informs his home government that the new premier was not merely passive but active in his support of Russian policy. In foreign affairs he was showing considerable initiative and Russia should meet him half-way. Poincaré certainly encouraged Russia's aggressive intentions in the Balkans. Just before the outbreak of the First Balkan War we find

Isvolsky reporting to Petrograd the good news in these words, "M. Poincaré told me that the French government is considering above everything else the possibility of international complications. It realizes fully that some event, such for instance as the destruction of Bulgaria by Turkey, or an attack upon Serbia by Austria might compel Russia to give up its passive attitude, and first take diplomatic steps to be followed afterwards by military action against Turkey or Austria. . . . If the conflict with Austria should result in the armed intervention of Germany, France, as a matter of course, would look upon such action as a 'casus foederis,' and would not hesitate for a minute to fulfil her obligations towards Russia." Poincaré took this occasion to inform Isvolsky that the experts of the French staff held an extremely optimistic view of Franco-Russian chances in case of a general war. More important was the disclosure that a special agreement with Italy deprived the latter of freedom of action, and that the third French squadron had been moved from Brest to Toulon under an agreement with the British naval authorities, and, therefore, because of the disposition of the fleets England was becoming more and more bound to France. Later dispatches of the Russian ambassador throw considerable light on Poincaré's attitude. We find Isvolsky informing the Russian foreign minister that in a conversation with the French Premier he was given to understand that popular opinion was such that France would not take the initiative in Balkan affairs, but that Russia should, relying upon the French government for unconditional support in dealing with the Austro-Serb question. On this subject Isvolsky quotes Poincaré as stating explicitly, "this means that if Russia makes war, France will also, for we know that Germany will stand by Austria in this question." M. Poincaré was not certain as to the position of England, they could count only on her diplomatic support, "but under certain conditions, this would not exclude more vigorous assistance."³

That M. Poincaré is one of the men chiefly responsible for the war, these Russian revelations make clear beyond doubt. When, a short time ago, the matter came up for discussion in the French Parliament, M. Poincaré had no trouble defending himself. Nothing succeeds like success, and M. Poincaré pointed with pride to the return of Alsace-Lorraine, to the wiping out of the disgraces of 1870, to the

³ The primary responsibility of Isvolsky for the direction of Russia's forward policy, leading to the diplomacy of 1914, is demonstrated by Dr. Friedrich Stieve in a penetrating analysis of Isvolsky's correspondence, *Isvolsky and the World War*.

achievement of France's present predominant position in Europe. But as we read the newspaper reports of Poincaré's defence, we could not help feeling that if France had lost the war, M. Poincaré, instead of the Kaiser, would now be living a life of retirement in Holland. However, it may be that circumstances justified M. Poincaré in making the commitments he did, and it may well be that any other Frenchman in his position would have done the same thing in the national interests; of that we cannot judge. But this we do know, the system which demands such entanglements is the very antithesis of democracy, for no one in France outside a small group in the inner circle of the foreign office knew of the agonies and sufferings being devised for France and the world!

Russia's forward policy in the Balkans had gained its first great objective—the endorsement of the French government: M. Poincaré had given to the Tsar's ministers a blank check, and it only remained to bring Great Britain into line. The events of 1911 showed the course to be steered. England cared not a fig for the Balkans, but she was solid on the questions covered by the *entente*; she must, therefore, be reached for the present through France. If, however, von Tirpitz has his way, and the Germans are foolish enough to refuse England's offers of a naval holiday, then the way will be open for a naval convention; so reasoned the Russian diplomatists—and for that matter, every European outside Germany who was capable of reasoning at all!

SIR EDWARD GREY'S POLICY

Sir Edward Grey's policy has been described as one of the enigmas of modern diplomacy; it has been criticised as contradictory and unintelligible, but to us it seems nothing of the kind. To understand Sir Edward, we must keep clearly and constantly in mind two things. In the first place it was his chief purpose to prevent the outbreak of a general war among the great powers. His mind was set upon maintaining the general peace of Europe. In the second place, should such a war, in spite of his efforts, break out, then Great Britain in her own interests must support France and Russia, in order to maintain the balance of power in Europe. His policy was *pacific as far as Europe as a whole was concerned*; it was not pacific in the sense that he did everything in his power to keep Great Britain out of war. It is failure to keep these two aspects of his policy in mind that has

led his English critics to charge him with irresolution and inconsistency. Sir Edward Grey's policy was an extremely difficult one to carry out in practice. It required a good understanding with France and Russia, but no formal alliances; it demanded close friendship, but not too close. He hoped to curb Germany by threatening to throw Britain's power into the scale on the side of her enemies, while he hoped to check them by refusing to give definite pledges, and by constantly reminding them that Parliamentary action would be necessary for anything more than diplomatic support. Sir Edward Grey was right beyond question in perceiving that British interests required the general peace of Europe; he was also right in his estimate of the European situation that England's greatest danger lay in the *Weltpolitik* of Germany, while he would have to be on his guard lest the realization of this give encouragement to French ideas of *revanche* or an aggressive turn to Russian policy in the Near-East. French publicists have insisted that his failure to line up Great Britain squarely behind France and Russia at the beginning of the Crisis in July, 1914, encouraged the Germans to believe that England would remain neutral so that his policy had the effect of encouraging Germany to declare war. On the other hand, German writers have asserted with equal insistence that Sir Edward Grey's failure to make clear to France and Russia that under no circumstances would England support them encouraged Russia to assume an aggressive attitude, to order a general mobilization which was the point of which all diplomatic efforts to preserve peace broke down, and, therefore, left Germany no alternative but to declare war. Since French critics accuse Sir Edward Grey of not restraining Germany, and since German critics accuse him of not restraining Russia, it is pretty safe to conclude that in the critical days of 1914 he tried his best to hold back the aggressive elements on both sides,—a conclusion amply borne out by the documentary evidence.

In the summer of 1912, M. Sazonoff came over very quietly to England to sound the British government. It was the shooting season, and as usual the King was at Balmoral, far from the madding crowd—and the diplomats. Thither he invited the Russian foreign minister, Sir Edward Grey, and the leader of the opposition, Mr. Bonar Law. No better spot could be chosen for a quiet interview. Doubtless these tired statesmen found the repose of the Deeside restful, and the strength of the Scottish hills soothing to their nerves, but the world did not know of this little party until

the unceremonious Bolsheviks gave away the entente family secrets.⁴ Sazonoff reported the conversations at length to the Tsar. He was given to understand that in foreign affairs there are no differences between the government and the opposition, that the Unionist leader had assured him that his party approved heartily of an understanding with Russia that would bring the two governments more closely together. After reminding His Imperial Majesty of Poincaré's wish of the previous year that he should find out how far they could depend upon the English fleet, Sazonoff goes on to relate how he "initiated Grey confidentially into the details of our naval agreement with France," and then tactfully sounded him upon the possibility of naval co-operation with the British navy in case the Germans started a war of aggression, "Without hesitating, Grey said that should the conditions under discussion arise, England would risk everything in order to deliver the most effective blow to German power." Sazonoff goes on further to report that Grey confirmed what Poincaré had already told him, that there was an understanding between France and England whereby the latter would come to the assistance of France, not only on the sea, but also on the continent by landing troops, in case of war with Germany. This was a reference to the military and naval "conversations" that had taken place between the staffs of the two countries.

Sir Edward Grey has been accused of double dealing, for shortly afterward he undertook with the help of Lord Haldane to reach an understanding with Germany.⁵ Yet, this was right in line with his policy of maintaining the peace of Europe; if that could be done by an understanding between England and Germany, then Sir Edward Grey was for it. He did not believe that war was inevitable; he thought it might be prevented by a skilful use of British power and influence and with this end in view he approached the German government. At the same time he did not shut his eyes to the possibility of war. This explains why we find him trying to come to a good understanding with Prince Lichnowsky, the German Ambassador, while British and Russian naval representatives were having "conversations" of a highly important strategical nature. On July 10,

⁴ The writer was on the Deeside, only a few miles away, at the time. But, for aught that he knew about it, he might have been in his old Ohio home, four thousand miles away!

⁵ See *supra* pp. 200-201.

1914, Sir Edward Grey announced to the House of Commons that relations with Germany were never better, that an agreement regarding Asia Minor and Mesopotamia was almost completed. While this was being worked out, during the months of May and June, British naval experts were drawing up, in closest secrecy, a plan of naval co-operation with French and Russian representatives.

In spite of secrecy, news of these "conversations" leaked out. The German press got word of them, and proceeded to inflame public opinion with this new evidence of the Entente's purpose of "encirclement." A vigorous article on the subject appeared in the *Berlin Tageblatt*. The Entente diplomatists met the situation in a truly diplomatic fashion. The Russian government gave out a flat denial, Sazonoff assuring the German ambassador, Count Pourtalès, that "such a naval convention exists only in the imagination of the *Berliner Tageblatt* and in the moon." The British Liberal press became as much excited as the German; strong editorials appeared in such papers as the *Manchester Guardian* and the *Daily News* (London) with demands that the country be informed as to what had taken place. Naturally the subject came up in the House of Commons; on June 11, 1914, two members raised the question in the widest possible form. Mr. King asked "whether any negotiations with a view to a naval agreement have recently taken place or are now taking place between Russia and Great Britain?" "Sir William Byles asked the Secretary of State for Foreign Affairs whether he can make any statement with regard to an alleged naval agreement between Great Britain and Russia; how far such an agreement would affect our relations with Germany; and will he lay papers?"

Sir Edward Grey: "The honorable member for North Somerset asked a similar question last year with regard to military forces, and the honorable member for North Salford asked a similar question also on the same day as he has done again to-day. The Prime Minister then replied that, if war arose between the European Powers, there were no unpublished agreements which would restrict or hamper the freedom of the Government or of Parliament to decide whether or not Great Britain should participate in a war. The answer covers both the questions on the Paper. It remains as true to-day as it was a year ago. No negotiations have since been concluded with any Power that would make the statement less true. No such negotiations are in progress, and none are likely to be entered upon so far as I can judge. But if any agreement were to be concluded that made it neces-

sary to withdraw or modify the Prime Minister's statement of last year which I have quoted, it ought, in my opinion, to be, and I suppose that it would be, laid before Parliament."

It was a difficult matter to answer pointed questions in such a manner as to reveal nothing pertinent to the discussion, but the official quotation from Hansard which we have just given shows that Sir Edward Grey and Mr. Asquith were equal to the occasion. The answer is a masterpiece in the art of using words to conceal your thoughts. Moreover, it was technically true, there were "no unpublished agreements" to restrict freedom of action, because no formal, signed undertakings bound the two governments. He did not state that there had been no "conversations" on the subject, and in diplomacy "conversations" and "agreements" are quite different things. Sir Edward Grey took advantage of the ordinary man's use of language to mislead the House and country. He did so by repeating the formula used by the Prime Minister on March 24, 1913, in answering similar questions regarding the nature of the Anglo-French Entente. Twice during 1913 Mr. Asquith had assured the Commons and the British people that Parliament was free to decide as to participation in a European war. Twice in 1914 Sir Edward Grey confirmed and emphasized the Prime Minister's declarations of the year before. In July, 1914, those who did not know how to translate the language of diplomacy into ordinary English reached the erroneous conclusion that there was nothing "to restrict or hamper the freedom of the Government or of Parliament," but, on August 3, 1914, they were to find out differently. Sir Edward Grey's speech in the House of Commons revealed the whole story, this time in unmistakable words. He divulged the "conversations," and the vital fact that the concentration of the French fleet in the Mediterranean had been made in conformity with plans for joint action by the two navies. Under the circumstances, he had given France the day before assurance, subject to approval by Parliament, that her northern coasts and shipping would have the protection of the British fleet. The whole tenor of the first part of Sir Edward Grey's speech dealing with Anglo-French relations was such that his hearers would draw but one conclusion—Great Britain had obligations of friendship with France which required co-operation in case of war. To be sure we are not bound by a formal contract, "no unpublished agreement," as you have been told, still there is an obligation, so "let every man look into his own heart and his own feelings and construe the obligation for

himself." A moral obligation then rested upon the British government to support France; it was a matter of honor which gentlemen would understand. To say the least, outside diplomacy, this means something different from a free and unhampered choice!

Not only were there naval but also military "conversations" with representatives of the French and Belgian staffs. The men in charge of the British war office knew their business; they understood that it was altogether likely that Germany would invade France through Belgium, and so they arranged to fulfil their obligations in an efficient manner. This was all the Germans were able to prove from the Belgian archives; there is no evidence that the British staff contemplated anything else than to help the Belgians repel a German invasion. After the war was over, Lord Haldane, on the occasion of the coal inquiry spoke with pride of his work at the war office, especially of the rapidity with which troops were landed in France, how "everything was prepared years before." And Mr. Churchill makes it a matter of self-congratulation in his book, "The World Crisis."

Our review of Sir Edward Grey's conduct of British foreign relations is very useful in that it reveals the workings of secret diplomacy in the most democratic country in Europe. Without the knowledge of the country, without the sanction of the House of Commons to whom he was responsible, yes, without even consulting a majority of his colleagues in the cabinet, the British foreign secretary had placed an obligation upon his country to support the alliance against Germany. At the eleventh hour the House of Commons had no real choice in the matter.

In one respect Sir Edward Grey is above criticism. Throughout every crisis in Europe, he labored strenuously to maintain the *general peace*, and never did he work more steadfastly and wholeheartedly than in the summer of 1914. So long as there was a hope of peace, Grey worked for it. When a general European war was certain, he concluded that British interests required the maintenance of the balance of power. He had felt all along that Great Britain could not stand aside in isolation in case the other great powers went to war. For him the clear cut alternatives were a general peace or a general war, and his policy, is only understood by keeping these sharp alternatives in mind. Perhaps his concern for the balance and his friendship for one of the continental groups spoiled his influence for peace—a debatable question which one is likely to settle according to his predilections.

ITALY AND THE TRIPLE ALLIANCE

While we now know that the Dual and Triple Alliances were purely defensive, still, before the war, the impression was general in the other countries that these Alliances were for aggressive purposes. Out of their Alliance, Germany and Austria got each the other's support. Italy got the same out of the Triple Alliance, and more; she demanded and received support against France for her imperial ambitions in Northern Africa, at the same time she used the threat of secession to check Austria's ambitions in the Balkans, while she asserted her own pretensions there. All along she brought German pressure to bear upon Austria to further her own ends. She never abandoned her *irredentist* ambitions, and when the war broke out promptly declared her neutrality. Nine months later she joined the enemies of her allies, seizing the opportunity to win "unredeemed Italy," and to carry out her designs along the Adriatic and in the Balkans. If you would understand what the Machiavellian art can accomplish when directed by single-minded devotion to national interests, study the relations of Italy to the Triple Alliance from 1882 to 1915.

THE POSITION OF THE CENTRAL POWERS

What was the position of the central powers in the European political situation, as the summer of 1914 drew on? Outwardly the whole of Europe seemed calm and peaceful. At least this was the way the old world appeared to us Americans. Perhaps it seemed so to most of the Europeans themselves. But to those who tried to keep informed, and in particular to the responsible heads of the European governments, the political situation was one of very high tension with all kinds of rumors afloat. While the German press was discussing Mitrafanoff's sensational article with Skobeleff's old slogan that if German policy in the Balkans and the Near-East did not change, then "for Russia the road to Constantinople would lie through Berlin," the German ambassador sent home from Petrograd on June 13, 1914, the positively alarming article from the *Bourse Gazette* which recounted Russia's tremendous preparations for war, and the confidence she felt in her military strength. The Russians felt, however, that France must do her part. It was necessary that full effect be given to the Three Years' Service Law, etc. The Kaiser read the translation of this article which appeared in the Berlin *Lokal An-*

zeiger on the 14th, and wrote upon the margin this significant note: "So there, at last the Russians have laid their cards upon the table! Anyone in Germany who doubts that the Russo-Gauls are working at high pressure for war with us very soon, and that we ought to take corresponding counter measures, deserves to be sent to the mad-house at Dalldorff." Such was the way the Kaiser viewed the situation two weeks before the murders at Serajevo. It throws light not only upon his own state of mind, but upon that of German officials generally.

It is not likely that Russia wanted war in the summer of 1914. Important restraining considerations were these: her strategic railways would not be completed for three or four years; her equipment was not sufficient for her great numbers; she needed industrial development and had very good reason to wait. What the Russian Bureaucracy really wanted was to put pressure on France to make the utmost of her military effort. But the change of tone since 1909 is striking. The Russian army reorganization had gone far enough so that the Tsar's ministers could speak in positive terms. The events of 1913 had made them bold, for the central powers had shown themselves unable or unwilling to prevent a settlement in the Balkans which was without doubt dangerous to the cohesion of the Austrian Empire. Italy had shown herself a doubtful member of the Triple Alliance. Clearly Austro-German influence was waning.

About this time members of the German General Staff began to din into the ears of the civil authorities the idea that Russia was planning an aggressive war, that the huge increases in her military establishment and the building of strategic railways could have no other purpose. In these circumstances time was working for the Russians and against the Germans. Every month that passed increased the relative strength of Russia. At a time when this idea was just beginning to lay hold of the German mind, the inflammatory article from the *Bourse Gazette* had a disastrous effect. Chancellor Bethmann-Hollweg writing to Prince Lichnowsky in London summed up the situation in these words, "The reaction upon German public opinion has been unmistakable and serious. Whereas before, it was only the most extreme of the Pan-Germans and the militarists who urged that Russia was making systematic preparations for an aggressive war against us very soon, even moderate public men are inclined now to take this view." To add to German difficulties at this time, came the secret service reports from Petrograd of an Anglo-Russian naval

understanding. However, in the letter just quoted, Bethmann writes that he does not believe that Russia plans an early war, but that she wants power to speak with a firm voice in the next Balkan crisis. In order to prevent war, in the opinion of the Chancellor, a good understanding between Germany and England is necessary.

With the termination of the Second Balkan War, for Austrian statesmen the Serbian question became acute. Count Berchtold, the foreign minister, was faced with the fundamental problem of maintaining the Empire of the Hapsburgs. At the end of 1913, he came to view the question in much the same way that the head of the Austrian staff did. Field-Marshal Conrad von Hoetzendorff had long been of the opinion that the "Greater Serbia" danger would sooner or later have to be grappled with, if the Empire were to avoid disintegration. From 1906 to 1911 Count Aehrenthal had difficulty in restraining the bellicose Conrad, who had all his plans made for a short and swift campaign against the Serbs. In 1914 he got his way, for Berchtold could see no other solution. The military preparations which Conrad describes in his memoirs⁶ show that the Austrian rulers hoped and expected that the war against Serbia in 1914 would be short and "localized."

THE OUTBREAK OF THE WAR

After the Second Balkan War Count Berchtold was very much concerned about the future of the Austrian Empire. Serbia's success had intensified the "Greater Serbia" agitation, and had stimulated Pan-Slav ambitions. To Berchtold it was imperative that something be done to remedy the situation, and so he deputized Baron Flotow, one of his associates at the foreign office, to study the matter and report. Aided by two assistants, Flotow prepared and presented to Berchtold, about the middle of June, 1914, a memorandum which proposed that Austria should form an alliance with Bulgaria, and that she should come to a closer understanding with Roumania, as a check upon the growing influence of Serbia. It even suggested the idea of a *rapprochement* with Serbia. Berchtold decided that the report should be worked out in detail and sent to Berlin. By June 24th the amplified memorandum was ready. During the next two or three days Berchtold went over the draft carefully, and made some im-

⁶ *Aus Meiner Dienstzeit, 1906-1916*. See also Szilassy, *Der Untergang der Donaumonarchie*.

portant alterations. He deleted the suggestion of a *rapprochement* with Serbia, but emphasized the idea of an alliance with Bulgaria. The altered Flotow memorandum was on the point of being dispatched to Berlin when the news of the murders at Serajevo reached Vienna. The memorandum was not changed, but a few sentences were added to the effect that this frightful deed gave new and convincing proof of the irreconcilable nature of the conflict between Austria and Serbia. For Austria, goodwill and concessions were useless, the fact of Serbia's aggressive hostility must be faced. Berchtold also wrote out for Francis Joseph a personal letter to the Kaiser. This letter contained some remarkable statements,

"The crime against my poor nephew has resulted directly from Russian and Serbian Pan-Slav agitation with the sole purpose of wrecking the Triple Alliance and disrupting my Empire. . . . The danger is increased by the fact that Roumania in spite of her alliance with us is very friendly to Serbia, and permits within her own territory exactly the same sort of hateful agitation against us as Serbia does. . . . For the future the aim of my government must be to isolate and weaken Serbia. The first step in this direction must be to strengthen Bulgaria and to form an alliance with her. Bulgaria can then unite with Roumania and guarantee her territorial integrity; Roumania perhaps will then leave the dangerous path into which she is led by her friendship with Serbia and her *rapprochement* with Russia. If this should succeed, the reconciliation of Greece with Bulgaria and Turkey could then be attempted, with the object of forming a new Balkan League under the protection of the Triple Alliance whose purpose would be to dam the Pan-Slav flood and assure peace to our countries. This will be possible only when Serbia, the pivot at present of Pan-Slav policy, is ejected as a political factor from the Balkans . . . a friendly settlement of the opposition dividing Austria and Serbia is no longer to be considered."

The preparation of the Flotow memorandum is significant. Irrespective of the tragedy at Serajevo, a crisis in the Balkans would have arisen sooner or later. Berchtold's policy made that inevitable. Among the informed, he has been severely criticized as the man most responsible for bringing on the war, and yet from the point of view of an Austrian nobleman, his diagnosis of the case of the Dual Monarchy was sound. The success of Serbian irredentism would be followed quickly by that of Italy and Roumania; it would be the beginning of the end of the once proud Empire of the Hapsburgs.

But Austria's difficulties were inherent, and the problem required very careful and far-sighted handling, something which Berchtold could not and did not intend to give it. Undoubtedly he counted too much upon the military power of Germany. Once he was assured of German support he dismissed all thought of failure from his mind.

THE FAMOUS JULY 5, 1914

It was not till July 5th that the Austrian ambassador, Szögyény, presented the memorandum and the royal letter to the Kaiser. That evening he sent the following dispatch to Berchtold, which tells exactly what happened.

"After I had brought it to the knowledge of Emperor William that I had a letter to deliver, I received their Majesties' invitation to lunch today at noon in the New Palace. I gave his Majesty the letter and the accompanying memorandum. He read both documents in my presence with the greatest attention. At first he assured me that he had expected an earnest action upon our part against Serbia, but that in view of the statements of Francis Joseph, he must keep in view a serious European complication and therefore wished to give no definite answer until he had consulted with the Chancellor.

"After luncheon, when I had again emphasized the seriousness of the situation, His Majesty authorized me to report that in this case also we could reckon on Germany's full support. He thought action ought not to be delayed. Russia's attitude would doubtless be hostile, but he had been prepared for that for years; and if it should even come to a war between Austria and Russia, we could be convinced that Germany would stand by our side with her accustomed faithfulness as an ally. Russia, furthermore, he thought, was in no way ready for war and would certainly ponder very seriously before appealing to arms.

"His Majesty said he understood how hard Francis Joseph with his well-known love of peace, would find it to invade Serbia; but if we had really decided that military action against Serbia was necessary, he would be sorry if we left unused the present moment which was so favorable for us. Early tomorrow morning the Emperor William intends to go to Kiel to start from there on his northern cruise. But first he will talk with the Chancellor, and for this purpose he has summoned him for this evening to the New Palace." ⁷

⁷ Austrian Red Book, Vol. I., No. 6.

The next day, after Bethmann-Hollweg and Under-Secretary for Foreign Affairs Zimmermann (von Jagow was in Switzerland on his honeymoon) had discussed the matter with Emperor William, the Chancellor officially defined Germany's position in these words: "Austria must judge what is to be done to clear up her relation to Serbia; whatever Austria's decision may turn out to be, Austria can count with certainty upon it, that Germany will stand behind her as an ally and friend."

"Thus the Kaiser and Bethmann chose their policy. They gave Austria a free hand and made the mistake of putting the situation outside of their control into the hands of a man as reckless and unscrupulous as Berchtold. They committed themselves to a leap in the dark. They soon found themselves involved in actions which they did not approve, and by decisions which were taken against their advice; but they could not seriously object or threaten, because they had pledged their support to Austria in advance, and any hesitation on their part would only weaken the Triple Alliance at a critical moment when it most needed to be strong. Bethmann and the Kaiser on July 5th were not criminals plotting the World War; they were simpletons putting 'a noose about their necks' and handing the other end of the rope to a stupid and clumsy adventurer who now felt free to go as far as he liked."⁸

Though the story of a conference of the military and naval leaders of Germany with the diplomatists, financiers and captains of industry at which the war was deliberately and cold-bloodedly decided upon, is pure fiction, still the date, July 5th, is of decisive importance, for it was on that date that the German government gave Count Berchtold a free hand in his dealing with Serbia. All along Berchtold had been restrained by uncertainty as to how far he could depend upon German support. The year before he had consulted Austria's partners in the Triple Alliance, only to have a deaf ear turned to his proposal for vigorous action against the Serbs. After the 5th of July he was assured of complete German support and laid his plans accordingly

⁸ Professor S. B. Fay, *American Historical Review*, Vol. 25, p. 128.

During the war we became thoroughly familiar with diatribes against the "Potsdam Gang" and the "Potsdam Council" of July 5th, especially after Mr. Morgenthau repeated the story. We now know that such a council was never held. See Fay *op. cit.*, p. 630, for a concise account of the myth. The Reichstag Investigating Committee in March, 1920, reported that there was no foundation for the crown council legend.

He did not consult Italy, and the reason is not far to seek. The Italian government most certainly would have discouraged strong action in the Balkans, and Italian opinion could hardly be expected to approve of Austria's campaign against irredentism. But Italy's attitude did not trouble Berchtold, who felt that the strong arm of German military power was ample for his purpose.

The giving of the blank check of July 5th by the Kaiser and Bethmann was an irretrievable blunder. With it the control of the situation passed out of their hands. It is hard to understand how the cautious Chancellor ever agreed to such a declaration. We are led to believe by his dispatch to Tschirschky, German ambassador at Vienna, of 6th July, that he misunderstood the situation and failed wholly to grasp what was in Berchtold's mind, for he devoted practically the whole of that dispatch to the proposed diplomatic action at Bucharest and Sofia. Apparently he thought the Austrian memorandum contemplated only a new diplomatic grouping which would hem in Serbia and eliminate her influence in Balkan affairs. The Kaiser looked upon the murders at Serajevo as a threat to himself and all other crowned heads, and naturally thought the memorandum inspired by the crime. In looking at the matter in this personal light he failed as completely as Bethmann to realize the full significance of Berchtold's plans. The crime made a marked impression on the Kaiser, who thought all crowned heads and especially the Tsar ought to join with him in the determination to see that those responsible were duly punished. The news of the crime threw the Kaiser into a blind rage, for two days afterward he wrote on the margins of Tschirschky's dispatch to Bethmann some comments which reveal his true state of mind. When Tschirschky stated that apparently only young men were involved in the crime, and therefore only milder forms of punishment were possible, the Kaiser burst out with: "Let us hope not." When the ambassador reported that Austria contemplated a thoroughgoing reckoning with Serbia, the Kaiser wrote, "Now or Never." Tschirschky had warned the Austrians against hasty action, pointing out that they must consider their allies and the European situation. Beside these words of moderation the Kaiser exclaimed, "Who authorized him to say this? That is very stupid! It is none of his business, for it is entirely Austria's affair to decide what shall be done in this matter, for, if things go wrong, it will be said afterwards that Germany was not willing! Tschirschky will please let nonsense alone! Things must be straightened out with the Serbs, *and that soon.*" The Kaiser objected to treating "murderers" like "gentle-

men," and counsels of moderation towards them he characterized as "imbecile" and "childish." All this is perfectly natural in a medieval minded man who believed that royal houses existed by divine appointment; the pity is that such a man should hold a position of power and influence in the Twentieth Century! Undoubtedly the Kaiser wished Austria to act quickly and vigorously against the Serbs, but the formal official papers show him more restrained than the side comments on the documents sent for his consideration. During the morning of the fateful July 5th he told Szögyény that the possibility of grave complications must be kept in mind. By afternoon he had apparently come to the conclusion that Austria could safely take action against Serbia without bringing on a European war, and so he did not postpone his northern cruise. European opinion generally condemned the crime, and the Kaiser wanted retribution to follow quickly.

The fact that no military preparations were taken either on the 5th or 6th shows that the German government did not expect war as a result of the assurances given Austria. The plain truth is that no one in Berlin guessed the lengths to which Berchtold was planning to go. The Austrian ultimatum when it came caused more surprise in the Wilhelmstrasse than anywhere else in Europe, for it was accepted that the Austrian government would not advance matters to a critical stage without keeping Berlin fully informed.

THE PREPARATION OF THE AUSTRIAN ULTIMATUM

Assured of German support, Berchtold called a ministerial council on July 7th. In addition to the ministers the chiefs of the army and navy were present. He explained that, "The discussions in Berlin had led to a very satisfactory result. Emperor William and Bethmann-Hollweg had given emphatic assurance of unconditional support in case of complications growing out of war with Serbia." Berchtold mentioned the possibility of war with Russia, but added that Russian policy was headed in that direction anyhow and that Austria's position tended to become increasingly worse. He, therefore, advocated an immediate attack upon Serbia. All agreed except Tisza, the Prime Minister of Hungary, who urged a more moderate course, and his influence prevailed so far that the council agreed not to order mobilization until specific demands had been presented to Serbia and rejected. It was the decided opinion of all but Tisza that a purely diplomatic victory, no matter how complete, would not solve the Serbian problem, and that the demands must be of such a nature

that their rejection would be inevitable, thus preparing the way for a real solution through war.⁹

Up to this time it was regarded as certain both in Austrian and German circles that the murder of Francis Ferdinand was planned with the knowledge and help of the Serbian government. To get the proof of this, Berchtold sent Wiesner to Serajevo to investigate. He reported on the 13th, exonerating the Serbian government of any complicity in the crime.¹⁰ As this did not suit Berchtold's purpose, he suppressed the report, so that in the critical days that followed, its contents were unknown to Tisza and the German government. Undeterred, Berchtold went ahead with his programme, formulating demands of such a nature that Serbia could not possibly accept them. They were approved at a second ministerial council on the 19th of July. Tisza was persuaded to give up his opposition, on condition that the council declare that Austria would not annex any Serbian territory. It was also decided that the ultimatum would not be presented in Belgrade until Poincaré and Viviani had left Russia, and were safely out of touch with the Russian authorities. Berchtold kept the terms of the note secret, and he was particularly anxious that Tschirschky should not know its exact wording, lest the German Foreign Office demand that its extreme and uncompromising tone be modified. Von Jagow did not receive from the Austrian ambassador a copy of the note until late in the evening of July 22nd, and it was then too late for the German authorities to make any modifications.¹¹

⁹ See the minutes of the ministerial council in the *Austrian Red Book*, Vol. I., No. 8, for a complete account of this meeting of decisive importance.

¹⁰ Recently a Serbian scholar, Stanojevic, has revealed the fact that the assassination of Ferdinand was worked out under the direction of the chief of the intelligence bureau of the Serbian general staff. But Berchtold did not know this. On July 13th Wiesner telegraphed from Serajevo, "Nothing proves or even suggests that the Serb government had a hand in organizing or preparing the murder or that it supplied the arms."

¹¹ On July 19th Jagow telegraphed Tschirschky demanding to be informed of the main points in the note, and on the 21st to be given its contents and the day and hour of publication. See Kautsky Documents, Nos. 77 and 83. But it was not Berchtold's intention that he should have this information, for on the 21st he telegraphed Baron Macchio from Ischl that Tschirschky was not to get the note until the next day, as there were corrections to be made in it. See *Austrian Red Book*, Vol. I, no. 46. But Count Forgach that evening gave the note in strictest secrecy to Tschir-

Count Czernin has stated¹² that, "Count Berchtold did not intend to incite war by the ultimatum, but hoped to the very last to gain victory by the pen, and that in the German promises he saw a guarantee against a war in which the participators and the chances of victory were equally erroneously estimated." However, if the worst came, he felt that Germany and Austria would defeat Russia and France inevitably, and "the victorious war against Russia and France will effect the birth of a new and vastly stronger monarchy." This latter was probably the true thought in Berchtold's mind. It is also possible that he, like the Austrian Chief of Staff, thought that the war against Serbia could be localized, and that irredentism would be squelched once and for all.¹³ Austria's other neighbors would be given a much needed object lesson. But the Austrian Foreign Office could not have been in doubt as to the attitude of the Russian Government, nor could the Austrian staff. It is highly probable that they expected Russia to be cowed by Germany's threat of war, and that the Serbs would be dealt with as they saw fit. Herein lies the folly of the Kaiser's and Bethmann's action of the 5th in giving Berchtold a free hand.

The Austrian ultimatum was presented at Belgrade on the 23rd giving forty-eight hours for a reply. On the 25th, before an examination of the Serbian reply had been made, the Austrian government on the advice of the chief of staff, Conrad, ordered the mobilization of the Austrian army with such dispositions that the Serbian frontier could be crossed on the 28th.¹⁴ The Serbian reply surprised everyone by its conciliatory tone and the lengths to which the Serbian government were willing to go to meet the Austrian demands. It closed by expressing its willingness to submit the whole question to the International Court at The Hague or to a conference of the Great Powers.

schky, who sent it by mail to Berlin. Jagow declares that he reproached Szögyény for not giving him this information until the eleventh hour, and that he pronounced the note "too sharp." See his *Ursachen und Ausbruch des Weltkrieges*, p. 109 ff., also Bethmann-Hollweg, *Betrachtungen zum Weltkrieg*, p. 138 ff.

¹² In the *World War*, p. 8.

¹³ Baron Szilassy op. cit. paints Berchtold as a weak-willed tool in the hands of Conrad and the war party. Dumaine, *La dernière Ambassade de France en Autriche*, pictures Berchtold as a puppet in the hands of Tschirschky. Neither view harmonizes with the glimpses of the foreign minister which we got from the protocols of the Crown Councils.

¹⁴ Gooss, *Das Wiener Kabinett und die Entstehung des Weltkrieges*, p. 172.

BETHMANN-HOLLWEG LOSES CONTROL OF SITUATION

The German Chancellor had rejected Sir Edward Grey's proposal for mediation at Petrograd and Vienna by the other four great powers on the ground that the matter was strictly an affair between Austria and Serbia. On July 27th Grey made a second proposal that Austria refrain from declaring war and use the Serbian reply as the basis of further negotiation. By this time Bethmann had changed his mind about the war being localized and so tried to recover control of the situation which he had surrendered on the 5th. Thus we find him late on the night of the 27th wiring Tshirschky to notify Berchtold that, "If we should refuse all mediatory action we shall be held responsible by the world as the instigators of the war . . . we cannot therefore refuse the rôle of mediator." Bethmann proposed direct negotiations at Petrograd, to bring Austria and Russia to a common understanding. The next day he sent an insistent telegram demanding that Berchtold accept his proposal.¹⁵ Berchtold did not even reply. He issued the declaration of war against Serbia at noon on the 28th. "For more than two whole days Bethmann could get no answer from him in spite of urgent telegrams. Bethmann was really "pressing the button" at Vienna, as he declared to Sir Edward Grey, but Berchtold was deaf. It was not until the morning of July 30th that he was finally informed by Berchtold that "to his sorrow" he could not act on Grey's proposal, because war having begun with Serbia, the proposal was outstripped by events."¹⁶

Events moved with great rapidity after the Austrian declaration of war on Serbia. Within three days the control of the situation passed into the hands of the militarists at Petrograd and Berlin. The evidence which we now have shows that Bethmann and Sazonoff, the Kaiser and the Tsar, all wanted peace, but the logic of the situation made for war. Preparedness had created the Frankenstein monster which now turned on the peoples of Europe and consumed them. It was the 26th before the chief of the German staff, Moltke, got back to Berlin, and immediately he began to put pressure on the Chancellor to authorize the steps leading towards mobilization, but the latter refused. The German military attaché at Petrograd, Egeling, had seen the Russian minister of war, Sukhomlinoff the night

¹⁵ Kautsky Documents, Nos. 279 and 323.

¹⁶ Professor S. B. Fay in the *American Historical Review*, Vol. 25, p. 638.

before and had learned that "preparatory measures" were being taken, but that no order for mobilization had been given.

The German staff were keeping a close eye upon Russia, for the success of their plans depended upon their skilful utilization in their campaign against France of every moment of the time allowed them by the mobilization of the Russian forces. The German staff looked upon time as Germany's greatest strategic asset. Everyone who understood the European military situation knew well that general mobilization on the part of Russia would be followed immediately by a declaration of war by Germany.

THE FATAL ACTION OF THE RUSSIAN MILITARISTS

The Russian Crown Council held at Krasnoe Selo on the 25th reached the decision that if Austria went to war against Serbia, Russia would order partial mobilization against Austria. Therefore, we find Sazonoff telegraphing on the 28th to the Russian ambassador in Berlin, "In consequence of the declaration of war by Austria against Serbia the Imperial Government will announce tomorrow the mobilization in the military conscriptions of Odessa, Kiev, Moscow, and Kazan. Please inform German government confirming the absence in Russia of any aggressive intention against Germany."¹⁷ On the 29th the German ambassador, Count Pourtalès, warned Sazonoff that even partial mobilization was a dangerous thing, that the German General Staff would insist on the maintenance of all the advantage they have over Russia in the way of rapidity of mobilization, and this meant that counter measures were sure to be taken in Germany. By this time the drift of things was becoming clear. The French government, who were apparently supporting every move that Grey was making to find a peaceful way out, felt that this ought to be supplemented by a show of solidarity, and so on the 29th their ambassador, Paléologue announced to Sazonoff that Russia could count fully upon France's fulfilment of her obligations as an ally. At the same time the French Government were pressing hard for a similar declaration at London, but to all such proposals Sir Edward Grey turned a deaf ear, as he did not wish to encourage the Russian militarists.

The Tsar had appealed to the Kaiser to mediate between Austria and Russia. That was at midnight of the 28th. At the same moment the wires were carrying a telegram from the Kaiser to the Tsar offer-

¹⁷ Diplomatic Correspondence, p. 55.

ing the mediation that he wished. Both messages were couched in conciliatory terms and expressed a genuine desire to avert war. It is probable that the two monarchs would have succeeded in preventing war had not the army heads in both countries and particularly in Russia taken matters into their own hands and decided otherwise. The chief of the Russian General Staff, Janushkevich, in collusion with the war minister, Sukhomlinoff, decided to go farther than "partial mobilization" and to notify the commanders of the other military districts that "general mobilization" was imminent.¹⁸ Russian military measures were making the position of the Kaiser and Bethmann at Berlin extremely difficult. The military heads were demanding action. At 6:30 P. M. on the 29th the Kaiser wired the Tsar that these military measures were likely to precipitate the calamity which they both wished to avert, and were jeopardizing his position as mediator. This telegram had a profound effect upon the Tsar; he decided to stop mobilization. The Sukhomlinoff trial brought this extremely important fact to light. The Tsar called the war minister up by telephone and ordered that the general mobilization be suspended. He gave an explicit command, but Sukhomlinoff objected that if mobilization orders were cancelled, confusion would result; they would not be able to recommence it on account of technical difficulties. He told the Tsar to consult the chief of the general staff, which Nicholas did, giving him specific instructions to suspend mobilization. Janushkevich hesitated, called up Sukhomlinoff, asked for instructions, and got the categorical reply, "Do nothing at all." At the famous trial, Sukhomlinoff admitted that the next day he lied to the Tsar and that mobilization so far from being called off was by that time in "full swing."¹⁹ On the 30th Janushkevich represented to the Tsar that

¹⁸ Hoeniger, *Russlands Vorbereitung zum Weltkrieg*, p. 100, quotes the telegram which Janushkevich sent to the commander of the Warsaw district notifying him that general mobilization would start on the 30th. Hoeniger, pp. 80-81, also gives telegrams dated as early as 1 A. M. of the 26th showing that long before being authorized, the Russian chief of staff was taking the first steps towards mobilization. These telegrams were issued in strictest secrecy and were found in the Warsaw district by the Germans during the course of the war.

¹⁹ General Dobrorolski, the officer in charge of mobilization, has declared that the Tsar was not disobeyed because partial mobilization only was ordered on the 29th. This does not agree with the testimony in the Sukhomlinoff trial, and would seem to be contradicted by dispatches given by Hoeniger. However, so many lies were told in the Sukhomlinoff trial

general mobilization was necessary because, as he stated at the trial, "I knew that Germany had already mobilized." This was not true, for Germany did not declare the "Threatened State of War" until 1 P.M. July 31st, after receipt of Pourtalès' telegram to Bethmann stating that Russian general mobilization had been ordered. Nor was Austrian general mobilization the cause of similar action in Russia, for the Austrian general mobilization order was not sent out from Vienna until 12.23 P. M. on July 31. The Tsar on the 30th was induced to sanction general mobilization, thus legalizing the secret military measures which his disobedient servants were already carrying through.

After the Austrian declaration of war against Serbia, it was clear that Russia intended to act. It followed from this that France would inevitably be drawn in. That would create a new situation for Great Britain; therefore, on the 29th Sir Edward Grey informed Prince Lichnowsky that England would not stand aside should France and Germany become involved in the struggle. Lichnowsky's report of this conversation alarmed Bethmann, who immediately wired Tschirschky:

"If Austria refuses all negotiations, we are face to face with a conflagration in which England will be against us, Roumania and Italy according to all indications will not be for us, and we shall stand two against four Powers. Through England's hostility the main blow will fall upon Germany. Austria's political prestige, the honor of her army, as well as her just claims against Serbia, can be adequately satisfied by her occupation of Belgrade or other places. Through her humiliation of Serbia, she will make her position in the Balkans as well as in her relation to Russia strong again. Under these circumstances we must immediately and emphatically urge upon the consideration of the Vienna Cabinet the adoption of mediation in

that historians are now very doubtful of the testimony given. But the writings of General Dobrorolski, Baron Schilling, and Professor Frantz make it clear that the order for general mobilization was approved by the Tsar on the morning of the 29th, and cancelled by him on the evening of the same day, after he had received the Kaiser's telegram, and just as Dobrorolski was about to telegraph the order for general mobilization throughout Russia. The next afternoon the Tsar yielded to the pressure put on him by the Grand Duke Nicholas, Janushkevich, and Sazonoff, who was by this time very much under the influence of Isvolsky, and approved the general mobilization order, which was immediately telegraphed throughout Russia.

accordance with the above honorable conditions. The responsibility for the consequences which would otherwise follow would be for Austria and for us an uncommonly heavy one.”²⁰

BERCHTOLD'S UNCOMPROMISING ATTITUDE

Bethmann hoped to put pressure on Austria to accept the so-called “pledge-plan” whereby Austria would make a declaration of purposes with regard to Serbia which would be acceptable to Russia, while Russia on her part would permit Austria to occupy Belgrade and other suitable points as a pledge that Serbia would carry out whatever agreement might be arrived at. As the German government was the first to urge the two points outlined above as a desirable compromise, they naturally supported Sir Edward Grey when he supplemented his original proposal of mediation with these very points. Tschirschky made strong representations at Vienna, but could get no answer on the 30th; he was finally put off with the reason that Tisza had to be consulted, and the latter would not reach Vienna until the next day.²¹ The delay was fatal, but apparently what Berchtold and the members of the Austrian government wanted. A ministerial council was called for the next day, but on the demand of Conrad von Hoetzendorff, the Austrian chief-of-staff, general mobilization was ordered to begin at noon on the 31st. This was in accord with Moltke's advice to the Austrian military attaché in Berlin. It was clear that the militarists were getting the upper hand, and given sufficient time, the situation would pass out of the control of the civil authorities, exactly what happened on the following day.

The final volume of Field-Marshal Conrad von Hoetzendorff's reminiscences makes clear how completely the control of the situation passed into the hands of the militarists. Conrad tells us that on July 31, at 7:45 A. M., he received the following telegram from General von Moltke: “Face Russian mobilization; Austria-Hungary must be preserved; mobilize immediately against Russia. Germany will mobilize. By compensations compel Italy to do her duty as ally.” Conrad also gives the following telegrams which he received from the Austrian Military Attaché at Berlin: “Moltke says that he considers the position critical if Austria-Hungary does not immediately

²⁰ This telegram from Bethmann to Tschirschky, is dated July 30, 2:55 A. M., and is given complete in the Kautsky Documents, No. 395.

²¹ Kautsky Documents, No. 465.

mobilize against Russia. Russia's declaration concerning ordered mobilization renders necessary Austro-Hungarian counter measures, which is to be mentioned in published explanation. This would constitute treaty case for Germany. With Italy reach honest agreement by giving compensations so that Italy remains actively on the side of the Triple Alliance; by no means leave a single man on the Italian frontier. Refuse renewed English *demarche* for maintenance of peace. For Austria-Hungary enduring of European War last measure of self-preservation. Germany absolutely stands by her."

Conrad makes clear why Berchtold was able to take his uncompromising stand in the Ministerial Council of the 31st. "I went with these messages to the Minister for War and with him to Count Berchtold, where we met Count Tisza, Count Stürgkh, and Baron Burian. After I read out the telegrams, Burian exclaimed, 'This is excellent! Who rules: Moltke or Bethmann?' The awful truth is that Moltke's assurances negatived the efforts of Bethmann and the Kaiser for peace. When Berchtold had heard Moltke's telegram, he turned to Conrad saying, 'I desired you to come here because I had the impression that Germany is drawing back; but now I have received from the most authoritative military quarter the most reassuring declaration.'"

Meanwhile Berchtold was doing his best to give the impression that he was willing to accept mediation as proposed. He and his associates were very conciliatory in their interviews with the Russian and British ambassadors. In particular they succeeded in giving the latter the impression that they were willing to accept Sir Edward Grey's proposal. After the outbreak of the war the impression was general that Germany had forced the issue at the very time when Austria was willing to make concessions in the interest of peace. As Sir M. de Bunsen, British ambassador at Vienna, put it:

"Austria, in fact, had finally yielded, and that she herself had at this point good hopes of a peaceful issue is shown by the communication made to you on the first of August by Count Mensdorff (Austrian ambassador in London), to the effect that Austria had neither 'banged the door' on compromise nor cut off the conversations. M. Schebeko (Russian ambassador) to the end was working hard for peace. He was holding the most conciliatory language to Count Berchtold, and he informed me that the latter as well as Count Forgach, had responded in the same spirit. . . . Unfortunately these conversations at St. Petersburg and Vienna were cut short by the trans-

fer of the dispute to the more dangerous ground of a direct conflict between Germany and Russia. Germany intervened by means of her ultimatums to St. Petersburg and Paris. The ultimatums were of a kind to which only one answer is possible, and Germany declared war on Russia on the 1st of August, and on France on the 3rd of August. A few days' delay might in all probability have saved Europe from one of the greatest calamities in history."²²

We know now that Bunsen was deceived by Berchtold and his associates. The minutes of the ministerial council held on the morning of July 31st puts the matter in its true light. Berchtold gave the terms of Grey's last proposal to the council, and informed them that Bethmann had strongly urged acceptance. But he went on to point out that in effect a compromise would mean the abandoning by them of conditions which they regarded as essential. Experience showed that mediation always resulted in unsatisfactory compromises. Stürgkh agreed and thought they ought to avoid even the pretence of acceptance, while Bilinske pointed concretely to the London Conference as an example of what might be expected in the way of having purposes thwarted, even Tisza made no objection to the sentiments expressed. Berchtold thought France, England and Italy would support the Russian position, and even the German ambassador in London would not represent their interests very warmly in the suggested conference of ambassadors. Granting, however, that they should win a complete diplomatic victory, that would not be enough. "If the matter should end now with merely a gain of prestige, it would in his opinion have been undertaken in vain. Even if Russia should give her consent, a mere occupation of Belgrade would gain us absolutely nothing. All this would be merely a tinsel display. Russia would stand forth as the savior of Serbia, and particularly of the Serbian army. The latter would remain intact, and two or three years later we should have to consider an attack upon Serbia under conditions much more unfavorable than the present."²³

For two extremely critical days the Austrian government kept the German Chancellor in doubt as to where they stood with regard to the proposed mediation. Bethmann-Hollweg was having a hard time with the German militarists who were demanding action, and his position was weakened by having to report that he was without word

²² Sir M. de Bunsen to Sir Edward Grey, Sept. 1, 1914. *Diplomatic Correspondence*, pp. 117-118.

²³ *Austrian Red Book*, Vol. III, No. 79.

from Vienna. On the 29th Moltke had pointed out to him the necessity for prompt action by the Germany army. It was this that prompted Bethmann to sound the British government with regard to neutrality in case of war with France. As Goschen reported the conversation to Grey, "Provided that neutrality of Great Britain were certain, every assurance would be given to the British Government that the Imperial Government aimed at no territorial acquisitions at the expense of France should they prove victorious in any war that might ensue." The British ambassador questioned the Chancellor further about the French colonies, and got from him the answer that "he was unable to give a similar undertaking in that respect." This conversation is important because it reveals unmistakably the imperialistic turn which German war aims would take should war break out. Before Sir Edward Goschen's report reached London, Sir Edward Grey had already warned Prince Lichnowsky that Great Britain would not stand aside in case France became involved in war with Germany. As we have seen, acting upon this warning, Bethmann tried to put pressure on Vienna to accept mediation, but so far from getting an acceptance, he was unable to get even an answer. Not even the Kaiser's personal appeal to Francis Joseph was able to bring a reply.²⁴ The position taken at Vienna was that nothing could be done until the ministerial council met; and we know from the minutes the unbending attitude of the ministers.

THE GERMAN DECLARATION OF WAR

While the Vienna Cabinet was considering the nature of their answer, events were taking place with tragic rapidity. General mobilization had been ordered in Russia on the 30th, but the German military attaché and the German ambassador at Petrograd seem not to have known about it until the morning of the 31st, Pourtalès wiring Berlin at 10:20 that general mobilization was under way. This put the military party in Berlin in the saddle. Mobilization began that afternoon, though the formal order was not issued until the next day. Europe now gathered the bitter fruit of preparedness. The Schlieffen plan must go into effect at once; Germany cannot wait. Time is her greatest asset; she must strike at the French army through

²⁴ The Kaiser to Francis Joseph, July 30th, 7 P. M. Kautsky Documents, No. 437.

Belgium without a moment's delay. Victory depends upon speed and necessity knows no law. War has begun.

The question of Russian mobilization has been too lightly dismissed in America. When the war broke out we would not listen to German argument that mobilization meant war. We said that Germany should have countered the Russian measure by a similar act upon her part. We considered Germany responsible for rushing Europe into a general war because to our way of thinking counter-mobilization was all that Russian action called for. Mr. James M. Beck was only one of many writers who stated this view in all its naïve simplicity: "Such act of mobilization is the right of any sovereign state, and as long as the Russian armies did not cross the border to take any aggressive action, no other nation had any just right to complain, each having the same right to make similar preparation."²⁵ Such was the natural view of an American. It was based upon the assumption that the European nations were in a state of genuine peace. But the real state of Europe was far otherwise. Preparedness had armed the European nations to the teeth, and *their peace was more in the nature of a truce*. Great armies faced each other across hostile frontiers, and general staffs watched their movements to see that the potential enemy forces gained no advantage. The problem which the German general staff faced in August, 1914, was exactly the same as that which Napoleon faced at Waterloo; he had to defeat Wellington before Blücher arrived. They failed just as Napoleon failed; Russia arrived and France won the Marne. We are not trying to defend the German militarists; we are only trying to understand them, and it is interesting to note that the military mind works in much the same way everywhere. How did Janushkevich and Sukhomlinoff defend themselves? On the ground of military strategy, of course! They "knew that Germany meant war," and as good soldiers they hastened to the rescue of France; just as Buell came to the rescue of Grant at Shiloh. It is altogether probable that the civil authorities in Berlin and Petrograd would have worked out a peaceful solution of the Austro-Serb Crisis, had not the great powers possessed huge armies trained for war needing only a word to be set in motion by general staffs eager to gain every ounce of advantage in carefully prepared campaigns where time was an element of the utmost strategic importance. To say, as is so often said, that prepared-

²⁵ *The Evidence in the Case*, p. 250.

ness is a policy making for peace, is to give utterance to downright folly; it is to flout every sound lesson that can be drawn from the inside story of the Crisis of 1914!

POLITICAL CONCLUSIONS TO BE DRAWN

From this account of the origin of the war we can safely draw certain far-reaching conclusions of a political nature. A League of Nations with open diplomacy is indispensable for the solution of the problem of war. Only by political organization of that nature can we put an end to the international anarchy described above. The public opinion of the world must be given an opportunity to express itself, and the only practicable way to do that is through the method of conference and discussion employed by the League.

The situation which developed in July, 1914, gives a tremendous illustration of the irreparable damage that can be done mankind by the old notions of sovereignty and independence. What were the statesmen thinking of in that critical month? They were thinking of power and prestige, and their moves were made with these ideas uppermost in their minds. Naturally then the situation grew increasingly critical until it passed completely out of the hands of the civil authorities into the hands of the military who were the experts on questions of power. Thus did Europe drift into war and into economic chaos, from which it is only now beginning to emerge. Given the economic and political situation prevailing in July, 1924, and we understand how the war was at one and the same time the most senseless and the most inescapable in history. It is a great illustration of the thesis of this book that the international foundations of prosperity are both economic and political, and the latter must be organized or they will make the former of less than no account.

BIBLIOGRAPHICAL NOTE ON THE DIPLOMACY OF THE WAR

DIPLOMATIC DOCUMENTS

For the terms of the Alliances and agreements see the French Yellow Book, *L'Alliance Franco-Russe*, 1918; and the *Secret Treaties of Austria-Hungary, 1879-1914*, edited with introduction by Professor A. F. Pribram. The first volume containing the treaties has been translated into English under the editorship of Professor A. C. Coolidge of Harvard.

After the outbreak of hostilities, the first diplomatic correspondence revealed was that contained in the various colored books published by the belligerent governments. These books were gathered together in a single volume in 1915, and published by the British Government as *Collected Diplomatic Documents relating to the Outbreak of the European War*. However, at the present time, they give but a fraction of the correspondence available, and the hundreds of books written during the war based upon them are now completely out of date. Furthermore, many of the dispatches are not given complete, and the falsified Russian Orange Book is untrustworthy.

After the Revolution of November, 1917, the new German republic authorized Herr Karl Kautsky to edit the documents which would establish responsibility for the war. As a result the world has received from the German archives the most complete collection of documents as yet published by any government: *Die Deutschen Dokumente zum Kriegausbruch: Vollständige Sammlung der von Karl Kautsky zusammengestellten Amtliche Aktenstücke*. 4 volumes.

In Vienna, Dr. R. Gooss did for the Austrian Foreign Office what Herr Kautsky did in Berlin editing the three volume collection, *Diplomatische Aktenstücke zur Vorgeschichte des Krieges*, 1914: *Ergänzungen und Nachträge zum Oest.—Ungar. Rotbuch*.

The Russian papers are widely scattered. There is no such collection available as those of Berlin and Vienna. The Secret Treaties of the Allies were published in November, 1917, and appeared in translation in the Manchester Guardian and the New York Evening Post. In 1919, the German Government published in both German and

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English, *Is Germany Guilty? German White Book concerning the Responsibility of the Authors of the War*, in which appeared many documents from the official Russian papers "Isvestia" and "Pravda." A remarkable collection of Russian papers is given by Siebert and Schreiner in *Entente Diplomacy and the World*, published privately by the Knickerbocker Press. These documents are vouched for by Baron Siebert, a former secretary of the Imperial Embassy in London. An illuminating set of documents of unquestioned authenticity is given by Marchand in *Un Livre Noir: Diplomatie d'Avant-Guerre d'après les Documents des Archives Russes. Préface par René Marchand*.

MEMOIRS AND REFLECTIONS

Many prominent statesmen and diplomatists have published their memoirs and reflections. While much valuable material may be gained from these books, since the chief object is to defend the policy of the writer and his associates, they must be handled critically. Very often documentary evidence available at the time of writing has been ignored, the writer, either knowingly or unknowingly, giving his personal opinions even when contradicted by facts. Among the most important of these works are: (English titles indicate translations.)

GERMAN

Bethmann-Hollweg, *Reflections on the World War*
Helfferich, *Die Vorgeschichte des Weltkrieges*
Jagow, *Ursachen und Ausbruch des Weltkrieges*
Pourtalès, *Am Scheidewege zwischen Krieg und Frieden*
Tirpitz, *Erinnerungen*

AUSTRIAN

Czernin, *In the World War*
Andrassy, *Diplomacy and the War*
Conrad von Hoetzendorff, *Aus meiner Dienstzeit*

BRITISH

Asquith, *The Genesis of the War*
Churchill, *The World Crisis*
Grey, *Twenty-Five Years: 1892-1916*
Haldane, *Before the War*

FRENCH

- Dumaine, *La dernière Ambassade de France en Autriche*
 Paléologue, *An Ambassador's Memoirs*
 Poincaré, *Les Origines de la Guerre*
 Viviani, *As We See It*

GENERAL ACCOUNTS

Barnes, *Assessing the Blame for the World War*, "Current History," May, 1924. A good corrective of popular illusions. Emphasizes the responsibility of France and Russia.

Beard, *Cross Currents in Europe To-Day*. The first three chapters give a good concise and very readable account of the diplomacy preceding the war.

Bausman, *Let France Explain*. One-sided condemnation of the French imperialists.

Bourgeois et Pagès, *Les Origines et les Responsabilités de la Grande Guerre*. The best defence of French policy.

Ewart, *The Roots and Causes of the Wars (1914-1918)*. An exhaustive treatment of the whole subject. Contains numerous quotations and abundant references to source material.

Fay, *New Light on the Origins of the War*, "American Historical Review," July and October, 1920, and January, 1921. Gives an excellent, correlated survey of the Kautsky and Gooss documents. A pioneer work in its treatment of the new material.

Gooch, *History of Modern Europe 1878-1919*. Best account, so far, covering the diplomatic history of the whole period.

Schmitt, *The Triple Alliance and the Triple Entente*, "American Historical Review," April, 1924. A forceful presentation of the thesis that the war was a gigantic struggle for the balance of power.

Valentin, *Deutschlands Ausschnpolitik*. The most impartial and dispassionate account by a German.

The following are very critical of the statesmen and policies of the author's own country.

Gooss (Austrian), *Das Wiener Kabinet und die Entstehung des Weltkrieges*

Kanner (Austrian), *Die Kaiserliche Katastrophenpolitik*

Kautsky (German), *Wie der Weltkrieg entstand*

Earl Loreburn, *How the War Came*

Pevet, *Les Responsables de la Guerre*

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Szilassy (Austrian), *Der Untergang der Donaumonarchie*

Two honest books, one by a Frenchman and the other by a German, the one the complement of the other, are

Renouvin, *Les Origines Immediates de la Guerre*

Montgelas, *The Case for the Central Powers*

This bibliographical note is not meant to be an exhaustive list of the works on the diplomacy of the war. The author believes, however, that enough has been given to justify the conclusions reached in Chapter VIII and Appendix B. Those who want a fuller list of authorities are referred to the footnotes of Gooch's History, where each special topic is adequately covered. Furthermore, the above selection contains no mention of works published prior to the Armistice, because the indispensable source material was not available until some time after the war. Those interested in the works published during the war and before will find interesting and adequate, though now obsolete, bibliographies at the end of Bullard's *Diplomacy of the Great War*, and Seymour's *Diplomatic Background of the War*.

Since the above was written three notable books bearing on the problem of war guilt have been published in the United States:

Isvolsky and the World War, by Friedrich Stieve

The Limitations of Victory, by Alfred Fabre-Luce

The Genesis of the World War, by Harry Elmer Barnes

The reading of these books has only served to confirm and strengthen my general conclusions. Professor Barnes' book, though frankly controversial in tone, is, nevertheless, the ablest study of the problem of war guilt made so far by an American. In Appendix I Professor Barnes deals with "The Literature of War Guilt," to which the reader who wishes an extended, up-to-date bibliography is referred.

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